ISSUES RELATING TO SMALL BUSINESS PENSION PLANS

Final Report

submitted to the
U.S. SMALL BUSINESS ADMINISTRATION

May 24, 1985
1.0 Introduction

The purpose of this report is to identify micro (firm-specific) and macro (small-business-wide) issues and problems associated with small business pension plans.¹ This report addresses issues implicit in:

- pension plan selection and design; and
- pension plan installation and maintenance.

Findings from the study are based on 1) the results of a survey of a limited number of small businesses (n=31), and 2) a review of the literature on small business pension plans.² Consideration is given to: 1) characteristics of small business pension plans, 2) the decision-making process used by small businesses in evaluating, adopting and operating pension plans; and 3) resources and expertise required to evaluate and operate small business pension plans.

A major issue addressed in this report is why small businesses are less likely than large businesses to offer pension plans. Major policy implications stem from this difference, as it may impact the quality of the small business workforce and small businesses' ability to compete with large businesses. In summary, principal factors which explain this difference include:

- complex and changing federal regulations, in particular regulations which affect plan design, reporting, and recordkeeping; closely related factors are the large fixed cost of compliance and the virtual lack of concessions to small businesses in the regulations;³

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¹ For purposes of this discussion, "pension plans" refers to any plan designed to provide deferred compensation.

² The small sample size precluded the development of statistically valid estimates of plan selection and maintenance characteristics of all small businesses. A larger survey is not justified, however, because small business owner/operators are typically not well informed about why they do or don't have a pension plan, or about the plan itself. Survey results are presented in Appendix A, a Bibliography is presented in Appendix B, and a copy of the survey questionnaire is provided in Appendix C.

³ Thirty-seven percent of the firms in our survey with less than 20 employees have pension plans, compared to 47 percent of the firms with 20-99 employees. The likelihood of there being a

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many of the small businesses in our survey (apparently correctly) believe that the regulations are so complex that the time and money required to comply are greater than the benefits available from a pension plan;

- inadequate or inaccurate information available to small businesses about pension plan choices and benefits (most of which is provided by insurance companies, brokers, and other less than objective sources); the typical small business which has a pension plan was given little or no choice in plan design: most of the important decisions are made by professional plan administrators;

- lack of stable revenues and profits, which precludes certain types of plans;⁴ and

- perceptions of small business owners that pension plans are too costly, too complex to install, or otherwise unsuitable for small businesses; these perceptions exaggerate the real problems, and appear to reflect the lack of reliable information, regulatory complexity, and preferences for current compensation.

Two of these factors might be mitigated. First, there has been little reliable, objective analysis on the tradeoffs involved (e.g., contribution flexibility, tax deductions, administration costs) in choosing among different types of plans. An objective analysis of these tradeoffs would enable small

⁴ Recent changes in pension law imply that Congress is primarily concerned with tax implications at the expense of the health of private pensions. See Krogman, Robert, "Pension Reform Legislation Continues to Add to Employers' Pension Plan Costs," AMA Forum, August 1984, 31-32. ERISA and subsequent legislation have been shown to have had a negative long-term effect on new plan qualifications. See, for example, Ledolter, Johannes, and Mark L. Pover, "A Study of ERISA' Impact on Private Retirement Plan Growth," The Journal of Risk and Insurance, v. 18, 1984, 224-243.

⁵ Eight of the 13 firms in our survey which were founded before 1960 have plans, compared to 5 of the 17 founded since 1960 (age of firm is a likely proxy for revenue stability and declining need for self-financing, among other factors). Moreover, nearly 50 percent of the respondents with growing revenues have a plan, compared to 30 percent of the respondents with stable or declining revenues.
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businesses to make more informed pension plan choices.

Second, the aspects of Federal pension regulations that most impact small businesses (e.g., reporting requirements, top heaviness, key employee provisions) have not been adequately studied, even by the agencies that promulgate and enforce these regulations. Determining what aspects of pension regulations have the most significant impacts on small businesses and examining the potential for regulatory reform would enable SBA and/or other agencies to reassess existing regulations in light of their impact on small businesses.

2.0 Plan Selection and Design

Small business owners initially face two major decisions with regard to pension plans -- whether to have any plan, and, if so, what type of plan to install. The latter decision is complicated by the wide variety of plans available, including:

- **Defined Benefit Plans**, in which each employee's benefit is predetermined (usually based on the employee's earnings and/or length of service). Of the thirteen firms in our survey which have pension plans, only two have defined benefit plans.

  Moreover, three of the four firms that had dropped plans previously had defined benefit plans. Firms which dropped defined benefit plans cited the high costs imposed by ERISA on defined benefit plans compared to defined contribution plans.

- **Defined Contribution Plans**, in which the employer's plan contributions are predetermined. Eleven of the thirteen firms with pension plans had one or more defined contribution plans. Defined contribution plans are increasingly popular because 1) regulatory requirements under ERISA are relatively less, 2) the employer's cost commitment is known (investment risk is borne by the employee), and 3) employers can avoid the exposure of up to 30% of corporate net worth in the case of unfunded defined benefit liabilities.  

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6 The relative merits of defined contribution and defined benefit plans is a complex issue. Briefly, the major advantage of a defined benefit plan is that it can be structured to provide a specific income replacement objective. On the other hand, small firms apparently favor defined contribution plans. Many of the benefit formulae used in defined benefit plans require maintaining detailed records concerning annual earnings and length of service. Also, defined contribution plans 1) provide

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There are several types of defined contribution plans:7

- **Money purchase pension plans**, in which the firm contribution is fixed. Two of the thirteen firms with pension plans had money purchase pension plans. Employee retirement benefits vary depending on such factors as amount of contribution, investment earnings on plan assets, and employee entry age. These plans are often contributory -- that is, the employer's contribution matches or is a multiple of the employee's contribution.

Money purchase pension plans require fixed annual contributions -- usually a percentage of payroll--regardless of profits. As such, money purchase plans should be considered only if a firm's earnings record shows a reasonable amount of stability (which is often not the case for small businesses).

- **Profit sharing plans** in which firm contributions, if any, are paid out of firm profits. Seven of the thirteen firms in our survey with pension plans had profit-sharing plans. These plans are more flexible than other plan types in terms of level of contributions (which are fixed as a percentage of profits, not of wages), and are easier to install and administer, since ERISA imposes less burdensome regulations on profit-sharing plans compared to other types of plans. Unlike defined benefit plans, profit-sharing plans can allow early withdrawal of employer or employee contributions for non-retirement purposes under certain circumstances.

- **Thrift plans** have lower contribution levels than other profit sharing plans. Employee participation is voluntary, and employer contributions depend on employee (after-tax) contributions, given certain minimum and maximum levels. During active employment,

that the employee's account balance is payable in the event of death, disability, or termination of employment, and 2) are "age neutral," (i.e., do not force younger employees to subsidize older employees). A full analysis of this issue is beyond the scope of this paper.

7 There is some overlap among these categories of defined contribution plans, and concomitant confusion among respondents to our survey as to what type of plan they have. For example, a 401(k) plan can also be a profit-sharing plan, a thrift plan, and/or an ESOP.

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employees can withdraw their contribution and some proportion of the employer contribution for specific financial needs (e.g., purchasing a house).

- **Cash or Deferred Arrangements (CODAs)**, (also known as 401(k) plans), which are a variation on conventional profit-sharing or thrift plans. Employees are given a choice of receiving an amount in the form of currently taxable compensation or of deferring this amount to be taxed at some future time. CODAs have special nondiscrimination requirements and are more complex and costly to administer than any other type of defined contribution plan. Their principal advantage is that they provide employees with the flexibility to choose between take-home pay and retirement contributions on a year-to-year basis. (One firm in our survey had a CODA.)

- **Employee Stock Ownership Plans (ESOPs)**, which are any type of qualified pension plan (including profit-sharing and thrift plans) that invests some or all of its assets in employer securities. Advantages of an ESOP include creating a proprietary interest in the firm on the part of employees and facilitating the owner's sale of the firm. The principal disadvantage is that employees' security may be too closely tied to the fortunes of the employer. (One firm in our survey had an ESOP.)

- **Simplified Employee Pension Plans (SEP)**, in which the employer makes a contribution to employees' IRAs (subject to higher contribution limits than the employees themselves). The chief advantage of a SEP is its simplicity. No formal plans or trusts are required. All that is required is a written allocation formula (i.e., the proportion of salary that will be contributed by the employer), and completion of a half-page form (Form 5305-SEP). Employer contributions are discretionary without any regard to profits or any other criteria, and annual reporting is greatly simplified. Disadvantages of the SEP are that 1) lump sum distributions do not qualify for 10-year averaging, 2) no voluntary contributions are permitted, and 3) participation rules are more stringent than for other types of plans. (One firm in our survey had a SEP.)

In addition to selecting a type of plan, employers must make decisions as to a wide variety of plan characteristics, subject to the minimum standards of ERISA, including:

- who will be covered (eligibility requirements);
the amount of the firm contribution (in a defined benefit plan, choosing a benefit formula);
whether the plan will allow for voluntary contributions;
when employees will be permitted to enter (participate in) the plan;
when employee benefits will be vested; and
what happens to benefits when an employee terminates employment.

These factors determine 1) whether a plan is tax qualified (i.e., whether employer contributions are tax deductible), and 2) who will benefit from the plan and how much. These characteristics are also important with regard to optimizing tax benefits or any other plan criterion. For example, maximizing tax benefits may affect the choice of benefit formula, integration with social security benefits, level of funding chosen, funding instrument chosen, and type of plan adopted. Potential criteria in plan choice and design are discussed below.

2.1 Factors Affecting Plan Selection and Design

The decision on whether to have a pension plan must take into account a variety of factors, as must the choice of a particular type of plan. Factors which favor a plan include:

- Competitive necessity. In our survey, the reason most frequently cited for having a plan (by 8 of 13 firms) was to retain good employees. Employers hire employees in a free, competitive labor market. Therefore, as the number of plans increase, employees come to expect a plan as part of the employment relationship. Employers who do not have such a plan are at a competitive disadvantage in attracting and holding personnel.

- Accumulating funds for retirement. Pension plans constitute a form of forced saving. Although it can be argued that, in the absence of a pension plan, employees would make equivalent provision for old age through individual savings, the evidence suggests that many people would not do so. In addition, a pension plan permits employers to terminate older employees in a

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8 To the contrary, there is evidence that employees at firms with pension plans save more than employees at firms without plans. See Cogan, Philip, The Effect of Pension Plans on Aggregate Saving, National Bureau of Economic Research, 1965.
humanitarian manner. In our survey, accumulating funds for retirement and protecting employees were cited by 5 of 13 employers with plans as a reason for having a plan. This factor also tended to be cited by respondents who did not have a plan but who intended to install one.

**Tax considerations.** Employers' contributions to qualified pension plans are deductible for federal income tax purposes and investment income earned on pension trust assets is exempt from federal income tax until distributed. From the employee's standpoint, employer contributions to a pension fund do not constitute taxable income in the year in which the contribution is made, and contributions can accumulate tax-free until distribution. Distributions from a pension plan may be taxed on a favorable basis under certain circumstances, and a limited estate tax exclusion is available for certain death benefits. In certain types of plans, the employee's own voluntary contributions may not be taxable until distribution.

The importance of this factor depends in part on the current and future tax bracket of the affected firm or individual. Small businesses in general face lower tax rates than large businesses. Therefore, the value of a deduction for contributions is less. However, small business owners are typically in high personal income tax brackets. In our survey, tax considerations were likely to be cited as a reason for having a plan by owners of very small firms (fewer than 20 employees), who themselves are likely to benefit directly from these tax advantages.9

**Unionization.** Firms with unionized workers are more likely to have pension plans than other firms. National Labor Relations Board and court decisions in the late 1940's held that an employer cannot install, terminate, or alter the provisions of a pension plan covering organized workers without the approval of the authorized bargaining agent for those employees. The few unionized firms in our sample all have pension plans.10

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9 Owners of very small firms receive a large proportion of the total tax advantages accruing from their firms' plans.

10 Many unionized firms have multiemployer pension plans. These are plans that cover workers at two or more unrelated companies in accordance with a collective bargaining agreement. These plans are typically defined benefit plans, and may also
On the other hand, there are a number of reasons for small businesses not to have a pension plan:

- **Lack of revenues/profitability.** The primary reason cited by respondents for not having a plan, and/or for dropping a previous plan, is the perception that unless the firm is consistently profitable, a plan is neither affordable nor worthwhile.

- **Complex and changing federal regulations.** Firms responding to our survey find government regulations complex, their future uncertain, and the attendant administration and paperwork burdensome and costly. For example, plan sponsors (excepting SEP-IRA plans) must file an annual report with the IRS. The report must provide detailed information on the number of plan participants, distributions made to participants and beneficiaries, and the amount and nature of plan assets. (These annual filing requirements in particular were cited by several respondents.) Other reports must be filed when certain events occur, e.g., the Department of Labor must be notified when a new plan is established, and the Pension Benefit Guaranty Corporation must be notified when a defined benefit plan is terminated.

Defined benefit plans are more heavily regulated and are otherwise more costly to administer (e.g., requiring use of complicated actuarial techniques) than other types of plans. Additional requirements imposed by ERISA on defined benefit plans include:

- minimum funding standards;

- calculating and paying insurance premiums to the Pension Benefit Guaranty Corporation; and

- more detailed and complicated actuarial disclosure reports.

These additional requirements reflect the need to ensure the eventual availability of sufficient funds to pay the required benefit. (Regulatory requirements are addressed in more detail in Section 3.)

- **Other administrative costs.** Administration consists not only of responding to Federal regulations, but also of maintaining the plan itself (e.g., employee record-
keeping, investment decisions). In this regard, defined benefit plans are more costly to administer because, in addition to premiums which must be paid to the Pension Benefit Guaranty Corporation, fees must be paid for actuarial computations. Cost-related factors (including start-up cost and administrative cost) were cited by 12 of the 16 survey respondents who do not have a plan and who answered this question.

- Employers and/or employees are covered by other plans. When the high administration costs of pension plans are taken into account, some employers feel that the marginal benefit of a plan is insufficient, and that employees can provide for retirement from other sources. Other plans are typically IRA's, but some owners in our survey were of the opinion that Social Security is sufficient. Similarly, a few owners indicated that providing a pension plan is not their responsibility.

- Employers prefer to build equity in the firm. Retained earnings are often a major source of capital for growing small businesses. Reinvesting earnings in the business rather than in a pension plan was often cited by very small firms where the owner would otherwise be the primary beneficiary of a plan.

- A plan is perceived to be incompatible with the nature of the firm's employment. A relatively high proportion of small businesses employ mostly part-time employees and/or have a high turnover rate. Such firms apparently find it impractical to offer a pension plan, since part-time employees are typically not covered by plans, and high employee turnover can make the plan unprofitable. Note, however, that ERISA does not require employers to provide pension plans to all their employees.

- The firm provides other benefits. Depending on the age and preferences of the employer and employees, other benefits (for example, flexible compensation plans) may be more important than a pension plan. Health insurance for example is typically provided before pension coverage.

Some of the above factors also support particular types of plans for particular firms. For example, projected future earnings may rule out defined benefit or money purchase plans (which require constant year-to-year contributions). Other factors which affect plan choice and design include the rate of labor turnover, the ratio of younger to older employees, and the ownership structure of the firm.

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A final factor in plan design of particular significance to small businesses is "top heavy" rules. Top-heavy rules 1) severely restrict choices of vesting rules, 2) require minimum contributions or benefits for non-key employees, and 3) restrict contributions and benefits for, and distributions to, key employees.

While the apparent intent of these rules was to minimize the tax break for high-income earners in top-heavy plans, the changes penalize all other participants as well. If maximum contribution limits mean that a small firm is now able to shelter only 10% of income instead of 15%, benefits to employees covered in the plan will decrease proportionately. Moreover, higher income earners can seek out other tax shelters, an option not readily available to lower-paid employees.

Exhibit I summarizes the above discussion by providing some indication of trade-offs in plan characteristics among the different types of plans. Generally, low-cost, simple plans provide fewer tax benefits or less contribution flexibility than high cost plans. Occasional articles in the literature have addressed these and other trade-offs for small businesses, with the following conclusions:

- If maximizing owner wealth is the principal criterion, defined benefit plans are generally more favorable than defined contribution plans if the owner is closer to retirement age than are the employees (because, under defined benefit plans, younger workers implicitly subsidize older workers);\textsuperscript{12}
- Given the same assumption, some form of plan is always preferable to no plan, but minor changes in other factors can have a significant impact on the tax consequences of different plans (e.g., the greater the percentage of the firm owned by the employer, the less favorable a retirement plan is);\textsuperscript{13} and

\textsuperscript{11} A top heavy plan is one that primarily benefits key employees (generally, an officer, one of the ten largest owners, a 5% owner, or a 1% owner whose annual compensation exceeds $150,000). Generally a plan is top-heavy if the total of the plan assets of the key employees exceeds 60% of all plan assets. A large proportion of small business plans are top heavy.


\textsuperscript{13} Ibid.
Exhibit 1

Tradeoffs Among Plan Characteristics and Types

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Contribution Flexibility</th>
<th>Maximum Relative Tax Deduction Available</th>
<th>Relative Installation and Administration Costs</th>
<th>Impact on Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined Benefit</td>
<td>none</td>
<td>10-25% (see below)</td>
<td>high</td>
<td>increase security</td>
</tr>
<tr>
<td>Defined Contribution</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money Purchase</td>
<td>none</td>
<td>25% $30,000</td>
<td>medium</td>
<td>increase security</td>
</tr>
<tr>
<td>Profit Sharing</td>
<td>high</td>
<td>15% $30,000</td>
<td>medium</td>
<td>incentive to increase profits</td>
</tr>
<tr>
<td>Thrift</td>
<td>high</td>
<td>6% $30,000</td>
<td>high</td>
<td>incentive to save</td>
</tr>
<tr>
<td>401(k)</td>
<td>very high</td>
<td>25% $30,000</td>
<td>very high</td>
<td>depends on how contributions are made</td>
</tr>
<tr>
<td>SEP</td>
<td>very high</td>
<td>15% $30,000</td>
<td>very low</td>
<td>depends on how contributions are made</td>
</tr>
</tbody>
</table>

Sources: Brokerage house materials (e.g., Prudential-Bache, Drexel Burnham, Shearson); Allen, Everett T., Pension Planning, Homewood, IL: R.D. Irwin, 1984.

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1 Maximum employer contribution as a proportion of compensation. Does not take into account varying potential for voluntary deductible contributions.

2 Maximum contribution is amount sufficient to provide a monthly benefit of $7,500 at retirement.

3 May depend on contributions of other employees.
from the employees' perspective, defined benefit plans have important drawbacks, including susceptibility to inflation impacts, and lack of age neutrality.  

3.0 Plan Installation and Administration

The preparation of the necessary legal documents is the first step in installing a plan. These include: the form which explains all the provisions of a plan (trust agreement, plan instrument, or group contract), authorizing resolutions, and enrollment and refusal forms. Most insurance companies and brokerage firms have specimens of the various legal documents involved, including master and prototype plans. Other important steps include:

- announcing the plan to employees.
- enrolling employees.
- selection of a funding instrument.
- selecting a plan administrator/trustee.

Small business plans are typically administered by an insurance company or by the employer (other possibilities include accountants and lawyers). Plans must provide for a trustee except in case of an annuity plan where contracts are bought from an insurance company. Trustees are subject to fiduciary responsibility rules.

Plan administration covers two broad areas -- 1) actions which relate to the plan as a whole (e.g., investment decisions, reporting), and 2) actions which relate to specific individuals. Major areas of responsibility (and sources of expense) in maintaining a pension plan include reporting, recordkeeping, and managing plan assets.

Reporting. Pension plan reporting requirements are summarized in Exhibit 2. For example, plan sponsors (excepting SEP-IRA plans) must file an annual report with the IRS. The report must provide detailed information on the number of plan participants, distributions made to participants and beneficiaries, and the amount and nature of plan assets. (These annual filing requirements in particular were said to be burdensome by several respondents.) Other reports must be filed when certain events occur, e.g., the Department of Labor must be notified when a new

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Exhibit 2

Pension Reporting Requirements

1. To plan participants

<table>
<thead>
<tr>
<th>Item</th>
<th>Automatically</th>
<th>On request</th>
<th>For review</th>
<th>When</th>
</tr>
</thead>
<tbody>
<tr>
<td>summary plan description</td>
<td>X</td>
<td></td>
<td></td>
<td>within 90 days after employee joins plan; within 120 days after plan is subject to ERISA; new summary every 10 years</td>
</tr>
<tr>
<td>plan documents</td>
<td>X</td>
<td>X</td>
<td></td>
<td>10 days after review request; 30 days after request for copies</td>
</tr>
<tr>
<td>summary of material modification</td>
<td>X</td>
<td></td>
<td></td>
<td>210 days after end of plan year in which modification is made</td>
</tr>
<tr>
<td>annual report (Form 5500)</td>
<td>X</td>
<td>X</td>
<td></td>
<td>as soon as filed with IRS</td>
</tr>
<tr>
<td>summary annual report</td>
<td>X</td>
<td></td>
<td></td>
<td>within 2 months after filing</td>
</tr>
<tr>
<td>benefits statement for terminating vested employees</td>
<td>X</td>
<td></td>
<td></td>
<td>within 180 days after end of plan year</td>
</tr>
<tr>
<td>personal pension benefits statement</td>
<td>X</td>
<td></td>
<td></td>
<td>60 days after request or 120 days after end of plan year</td>
</tr>
<tr>
<td>explanation of claims denial</td>
<td>X</td>
<td></td>
<td></td>
<td>within 90 days</td>
</tr>
<tr>
<td>plan termination report (Form 5310)</td>
<td>X</td>
<td>X</td>
<td></td>
<td>after report is filed with IRS</td>
</tr>
<tr>
<td>joint and survivor notification</td>
<td>X</td>
<td></td>
<td></td>
<td>depends on plan provisions</td>
</tr>
<tr>
<td>notification of intent to terminate</td>
<td>X</td>
<td></td>
<td></td>
<td>10 days prior to termination date</td>
</tr>
<tr>
<td>notice to interested parties</td>
<td>X</td>
<td></td>
<td></td>
<td>24 days before determination of plan status</td>
</tr>
</tbody>
</table>

1 Selected sample forms are provided in Appendix C. For small plans, Form 5500 C is due every three years and Registration Statement R for the two intervening years.

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Exhibit 2 (cont.)

Pension Reporting Requirements

2. To government agencies

<table>
<thead>
<tr>
<th>Item</th>
<th>Agency</th>
<th>When</th>
</tr>
</thead>
<tbody>
<tr>
<td>summary plan description</td>
<td>DOL</td>
<td>120 days after plan becomes subject to ERISA; new summary every 10 years</td>
</tr>
<tr>
<td>plan documents</td>
<td>DOL</td>
<td>on request</td>
</tr>
<tr>
<td>summary of material modification</td>
<td>DOL</td>
<td>210 days after end of plan year in which modification was made</td>
</tr>
<tr>
<td>annual report (Form 5500)</td>
<td>IRS</td>
<td>7 months after end of plan year</td>
</tr>
<tr>
<td>annual information returns (Form 1099R)</td>
<td>IRS</td>
<td>30 days after end of plan year, for each beneficiary who receives a distribution</td>
</tr>
<tr>
<td>plan termination report (Form 5310)</td>
<td>IRS</td>
<td>30 days prior to plan termination</td>
</tr>
<tr>
<td>notification of intent to terminate</td>
<td>PGBC</td>
<td>(defined benefit plans); 10 days prior to termination</td>
</tr>
</tbody>
</table>

Source: Adapted from Allen, Everett T., Pension Planning, Homewood, IL: R.D. Irwin, 1984.
plan is established, and the Pension Benefit Guaranty Corporation must be notified when a defined benefit plan is terminated.

Recordkeeping. Plan administrators should maintain:

- a list of names, addresses, and phone numbers of all individuals who are associated with the plan and its administration (e.g., participants, trustees);
- pertinent data on each participant (e.g., earnings, date of participation); more extensive data (e.g., age, retirement date) are required for defined benefit plans;
- a digest of major plan provisions, and records of calculations used in determining benefits; and
- a complete history of pension fund receipts and disbursements.

Although contributions made to the plan are the major cost of maintaining the plan, the cost of keeping adequate records is probably the most underestimated cost of maintenance.

Investment Management. Small businesses typically use outside organizations to manage plan assets (11 of the 13 firms in our survey with pension plans did). Of the nine respondents who were aware of the type of investment management organization used, four use insurance companies, three use investment advisory firms, and one uses a law firm. The remaining firm has a multi-employer plan which is managed by union and management trustees.

Fees. Exhibit 3 shows typical plan installation and administration fees. These are considerable (e.g., a firm with less than 10 employees would pay $1850 in first year costs for a defined benefit plan). These fees do not include investment management, for which fees typically range from less than 1% to 2% of assets.

3.1 Conclusion

In conclusion, small business reluctance to install pension plans reflects 1) complex and changing Federal regulations, 2) inaccurate or inadequate information available to small businesses about pension plans, 3) lack of stable revenues and profits, and 4) small business owners' perceptions that pension plans are too costly, too complex, or otherwise unsuitable for small businesses. The latter perceptions exaggerate real problems. Potential actions to mitigate these problems include 1) an objective analysis of tradeoffs for small businesses among pension plan choices, and 2) an analysis of which Federal pension regulations have the most significant impact on small businesses.

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## Exhibit 3

Pension Plan Installation and Administration Fees

<table>
<thead>
<tr>
<th>Type of Plan</th>
<th>Installation</th>
<th>Administration</th>
<th>Termination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined Benefit</td>
<td>$1200 plus</td>
<td>$650 plus $25</td>
<td>$750</td>
</tr>
<tr>
<td></td>
<td>$25 per part. over 10</td>
<td>per part. over 10</td>
<td></td>
</tr>
<tr>
<td>Defined Contribution</td>
<td>$1000 plus</td>
<td>$500 plus $25</td>
<td>$500</td>
</tr>
<tr>
<td></td>
<td>$25 per part. over 10</td>
<td>per part. over 10</td>
<td></td>
</tr>
<tr>
<td>Profit Sharing/Thrift with 401(k) provisions</td>
<td>$1200 plus</td>
<td>$650 plus $25</td>
<td>$750</td>
</tr>
<tr>
<td></td>
<td>$25 per part. over 10</td>
<td>per part. over 10</td>
<td></td>
</tr>
<tr>
<td>Plan Amendments</td>
<td>$400-600</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Fee schedule of one selected professional plan administrator. Note that defined contribution plan fees may be artificially high because of the reduced potential for additional administrator income from such plans.
APPENDIX A - SURVEY RESULTS

A.1.0 Sample Selection

The sample was selected as follows:

- characteristics of a representative sample, stratified by industry and firm size, were developed;
- an initial sample was selected, using this framework; firm names and other data were obtained from local (Washington metropolitan area) and other industrial directories; and
- non-respondents were replaced using the same procedure.

A.1.1 Survey Response

Table 1 shows the characteristics of firms interviewed for the survey of small business experience with pension plans. In summary:

- slightly over one-third of the respondents have 9 or fewer full-time employees; another one-third has between 10 and 30 employees;
- by industry, respondents are almost evenly distributed among the construction, manufacturing, wholesale and retail, and services sectors;
- most (27 of 31) are corporations; the remainder are sole proprietorships;\(^{15}\)
- the median firm age is approximately 20 years; 13 firms were founded before 1960; and
- over two-thirds reported that their revenues are currently increasing (reflecting the economic climate).

Table 2 provides statistical information on employee characteristics of firms in the sample. Nearly half reported that most of their employees are under 40; and 55 percent reported that most of their employees are men.

A.2.0 Firms with Pension Plans

Fifty-five percent of the employees covered by the survey

\(^{15}\) Several of these firms incorporated only recently, in response to changes in tax law.

Justin Research Associates, Inc.
Table 1

Firm Profile (n=31)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>7</td>
<td>23%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9</td>
<td>29%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>4</td>
<td>13%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>6</td>
<td>19%</td>
</tr>
<tr>
<td>Services</td>
<td>5</td>
<td>16%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Form of Business</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporation</td>
<td>27</td>
<td>87%</td>
</tr>
<tr>
<td>Proprietorship</td>
<td>4</td>
<td>13%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year Founded</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981-present</td>
<td>3</td>
<td>10%</td>
</tr>
<tr>
<td>1975-1980</td>
<td>5</td>
<td>16%</td>
</tr>
<tr>
<td>1970-1974</td>
<td>5</td>
<td>16%</td>
</tr>
<tr>
<td>1960-1969</td>
<td>5</td>
<td>16%</td>
</tr>
<tr>
<td>Before 1960</td>
<td>13</td>
<td>42%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenue</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growing</td>
<td>21</td>
<td>68%</td>
</tr>
<tr>
<td>Stable</td>
<td>8</td>
<td>26%</td>
</tr>
<tr>
<td>Declining</td>
<td>2</td>
<td>6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>0</th>
<th>1-9</th>
<th>10-19</th>
<th>20-49</th>
<th>50-99</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full time</td>
<td>0</td>
<td>0 (35%)</td>
<td>5 (16%)</td>
<td>11 (35%)</td>
<td>4 (13%)</td>
</tr>
<tr>
<td>Part time</td>
<td>19 (61%)</td>
<td>10 (32%)</td>
<td>2 (6%)</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>Seasonal</td>
<td>28 (90%)</td>
<td>3 (10%)</td>
<td></td>
<td></td>
<td>100%</td>
</tr>
</tbody>
</table>

Justin Research Associates, Inc.
### Table 2
Employee Characteristics
(n=31)

<table>
<thead>
<tr>
<th>Age</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mostly younger than 40</td>
<td>13</td>
<td>43%</td>
</tr>
<tr>
<td>Mostly older than 40</td>
<td>6</td>
<td>19%</td>
</tr>
<tr>
<td>Roughly equal proportions</td>
<td>11</td>
<td>35%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mostly women</td>
<td>3</td>
<td>10%</td>
</tr>
<tr>
<td>Mostly men</td>
<td>17</td>
<td>55%</td>
</tr>
<tr>
<td>Roughly equal proportions</td>
<td>11</td>
<td>35%</td>
</tr>
</tbody>
</table>
employed by firms with pension plans. Employee characteristics (i.e., predominant age or gender) do not appear to affect the likelihood that a firm will have a plan.

Thirteen of the 31 firms contacted (42 percent) have pension plans. Larger firms, older firms, firms with growing revenues, and firms in manufacturing, construction and services are slightly more likely to have plans:

- 37 percent of the firms with less than 20 employees have pension plans, compared to 47 percent of the firms with 20-99 employees; the likelihood of their being a plan increases with firm size, reflecting economies of scale in plan implementation and operation;

- eight of the 13 firms founded before 1960 have plans, compared to 5 of the 17 founded since 1960; (age of firm is a likely proxy for revenue stability and declining need for self-financing, among other factors);

- nearly 50 percent of the respondents with growing revenues have a plan, compared to 30 percent of the respondents with stable or declining revenues; firm profitability and the cost of a plan are major considerations for small businesses in deciding whether to have a plan;17 and

- nearly 70 percent of the manufacturing firms have plans, 40 percent of the firms in construction and services, and 20 percent of the firms in wholesale and retail trade; industry is related to the likelihood that a firm will have a plan not only because industry and firm size are related (for example, manufacturing firms tend to be larger than other small businesses) but also because plans are customary in certain industries (e.g., manufacturing) and not customary in others (e.g., trade); respondents in the latter

16Previous studies have indicated that, overall, slightly less than 50 percent of employees in establishments with less than 100 employees were covered by pension plans. The higher figure in this survey presumably reflects the disproportionate number of older, larger small businesses.

17For certain types of plans, at least occasional profitability is effectively required by regulation if the plan is to continue. In profit-sharing plans, firm contributions are paid out of firm profits. IRS regulations require that contributions under profit-sharing plans must be "substantial and recurring."

Justin Research Associates, Inc. 20
industries were not knowledgeable about the concept and potential benefits of pension plans.

A.2.1 Reasons for Choosing the Particular Type(s) of Plan(s)

Respondents gave a wide variety of reasons for choosing a particular type or types of plan. Fully half of the firms with plans have adopted profit-sharing plans because contributions are not required when the firm is not making a profit (although the firm must occasionally be profitable). This takes into account uncertainty about future earnings which is characteristic of small business. Ease of start-up of profit-sharing plans was also cited frequently as a reason for choosing that type of plan.

Other reasons cited include benefits to owners/management, avoiding investment risk, avoiding investment decisions, higher deduction limitations, advice of accountants or lawyers, "the union", and "someone came and sold it."

A.2.2 Employee Participation and Vesting

Overall, 50 percent of the full-time employees in the firms covered by this survey participate in one or more firm pension plans. Within individual firms with plans, the proportion of full-time employees that participate in the pension plan appears to be inversely related to firm size. All six of the smaller firms (up to 19 employees) have 100 percent participation, while only one of the 6 firms with 20 or more employees does. Of the remaining five, two have over 80% participation and only one has under 50 percent participation. This disparity between smaller and larger firms in the sample may reflect less turnover and greater employer generosity in smaller firms.

18Only six respondents knew how many of their employees were vested in one or more plans. In these firms, 91 percent of all participating employees were either fully or partially vested.

19Participation refers to what proportion of employees are included in the plan. In most plans, employees become eligible to participate when they reach age twenty-one and have completed one year of service. An exception applies to plans with immediate vesting (see below); such plans may require three years of service. Certain categories of employees, e.g., union members under a collective bargaining agreement, may also be excluded from participation.

20By far the most common reason given for why some employees were not participants was that they had not been with the firm long enough. Other factors included part-time employees, and employees who declined to participate.
Of the eleven firms whose respondents were familiar with the vesting schedule, five require 10 years continuous service before an employee is fully vested in the plan (the ten-year service rule). One does not fully vest employees until they have 15 years of continuous service (the graded fifteen years service rule). Four fully vest their employees in six years, and one vests employees immediately. The latter four firms may have "top-heavy" plans. If so, they must choose between three-year "cliff" vesting, graded six-year vesting, or a more accelerated schedule.

Most firms' plans neither require nor allow any employee contributions. Two firms have plans which allowed such contributions (a profit sharing plan and an SEP, respectively), one had a plan which required them (the "informal" plan), and one had a 401(k) plan under which the employer's contribution depended on the employee's contribution.

Respondents were generally ignorant of other more technical aspects of their plans. Relatively few understood what was meant by integration with Social Security. Most did not understand top-heaviness when that topic was raised by the interviewer.

---

21 Vesting occurs when a plan participant has earned a right to a benefit that is not dependent on continued employment.

22 SEPs only allow employee contributions in the sense that employees make their IRA contribution (which they could make in the absence of any plan) to the same plan that the employer contributes to.
APPENDIX B

Bibliography


Justin Research Associates, Inc.
APPENDIX D

Sample Reporting Forms

Justin Research Associates, Inc.
**U.S. SMALL BUSINESS ADMINISTRATION**  
**SMALL BUSINESS PENSION PLAN SURVEY**

Name of Firm  

Telephone (_____)  
Area Code

Name of Respondent  

Title  

Type of Business  

Location  

<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
<th>Explanation</th>
<th>C/B Time</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
1. Approximately how many persons does your firm employ, including full-time permanent, part-time, and seasonal employees?

   [ ] full-time permanent
   [ ] part-time
   [ ] seasonal

[IF THE FIRM HAS MORE THAN 100 EMPLOYEES, TERMINATE THE INTERVIEW]

2. How would you characterize your firm's employees? Are they...

   mostly  [ ] younger or [ ] older;
   mostly  [ ] women or [ ] men.

3. Is your business a...

   [ ] corporation?
   [ ] partnership?
   [ ] sole proprietorship?
   [ ] other _______________________

4. In what year was your firm founded?

   [ ] since 1980
   [ ] 1975-1980
   [ ] 1970-1974
   [ ] 1960-1969
   [ ] before 1960

5. Does your firm have a pension plan?

   [ ] yes
   [ ] no, never had a plan (skip to Q 25)
   [ ] no, had a plan and dropped it (skip to Q 31)

6. Why did you establish a pension plan?

   [ ] accumulate funds for retirement
   [ ] union negotiation
   [ ] protect employees
   [ ] retain good employees
   [ ] tax advantages
   [ ] other _______________________


7. Describe the type or types of plan.

1. defined benefit plan (go on to Q 8)
2. defined contribution plan
3. money purchase pension plan
4. profit sharing plan
5. thrift plan
6. employee stock ownership plan (ESOP or PAYSOP)
7. 401(k) plan
8. simplified employee pension plan (SEP)
9. Keogh plan
10. other ________________________

(skip to Q 9)

8. Is it a single employer or multi-employer plan?

1. single employer
2. multi employer

9. Why did you select that particular type of plan?

1. ease of start-up
2. avoid paperwork/administrative expense
3. least risky type of plan
4. avoid involvement in investment decisions
5. flexibility of required contributions
6. higher deduction limitations
7. benefits to owners/management
8. other ________________________

10. In what year was your firm's pension plan set up?

1. since 1980
2. 1975-1980
3. 1970-1974
4. before 1970
5. don't know

11. How many employees are plan participants?

12. If some employees are not plan participants, why not?

1. not eligible - part-time employee
2. not eligible - temporary employee
3. not eligible - other reason ________________________
4. declined to participate
13. Does your firm's plan allow or require employee contributions?

1. none
2. required
3. employer contribution depends upon employees'
4. optional
9. don't know

14. How many years of service are required before your employees become vested?

15. Do your employees become fully or partially vested at the end of this period?

1. fully vested
2. partially vested
9. don't know

16. How many employees are vested?

17. Is the plan integrated with Social Security?

1. yes
2. no
9. don't know

18. Does someone in your firm have the job of keeping pension plan records, preparing plan reports, and/or monitoring the plan in any way?

1. yes
2. no (skip to Q 20)

19. Is that person a full-time employee?

1. yes
2. no

20. Are the plan's assets managed by someone outside the firm?

1. yes
2. no (skip to Q 22)
21. What type of investment management organization do you use?
   1. commercial bank
   2. insurance company
   3. investment advisory firm
   8. other

22. Have you ever dropped a pension plan or switched plans in the past?
   1. yes, dropped a plan (skip to Q 24)
   2. yes, switched plans
   3. no (skip to Q 36)

23. Why did you switch plans?
   1. increase in revenues
   2. reduction in revenues
   3. change in regulations
   4. increase in administrative costs
   5. change in workforce
   6. other regulatory changes
   8. other

(skip to Q 35)

24. Why did you drop your previous plan?
   1. reduction in revenues
   2. complexity of regulations/paperwork
   3. increase in administrative costs
   4. change in workforce
   5. reduction in benefits to management
   6. management/employees covered by other plans
   8. other

(skip to Q 35)

25. Why doesn't your firm have a pension plan?
   1. lack of revenues
   2. start-up costs
   3. avoid paperwork/administrative expense
   4. need for expert assistance
   5. firm provides other types of benefits
   6. complexity and change of regulations
   7. lack of expressed interest on part of employees
   10. management/employees are covered by other pension plans
   11. management/employees prefer current income
   12. restrictions on management benefits
   8. other
26. [If regulations are cited as a reason] What regulations affected your decision not to have a pension plan?

27. Has your firm ever lost a key employee because it didn't have a pension plan?

1  yes
2  no

28. Do you have any plans to set up a pension plan?

1  yes (skip to Q 30)
2  no

29. What would have to change for you to want to set up a pension plan?

(skip to Q 36)

30. Why do you want to set up a pension plan?

1  accumulate funds for retirement
2  union negotiation
3  protect employees
4  retain good employees
5  tax advantages
8  other ______________________

(skip to Q 36)

31. Why did you drop your previous plan?

1  reduction in revenues
2  complexity of regulations/paperwork
3  increase in administrative costs
4  change in workforce
5  reduction in benefits to management
6  other regulatory changes
7  management/employees covered by other plans
8  other ______________________

32. [If regulations are cited as a reason] What regulations affected your decision not to have a pension plan?
33. What would have to change for you to want to set up a pension plan?

34. Has your firm ever lost a key employee because it didn't have a pension plan?

1 yes
2 no

35. What type of plan did you have previously?

1 defined benefit plan
2 defined contribution plan

1 money purchase pension plan
2 profit sharing plan
3 thrift plan
4 employee stock ownership plan (ESOP or PAYSOP)
5 401(k) plan
6 simplified employee pension plan (SEP)
7 Keogh plan
8 other

36. If management/employees are covered by other pension plans, what type or types of plan do they have?

1 IRA
2 Keogh
3 plan from previous place of work
8 other

37. Would you characterize your total revenues during 1983 and 1984 as growing, stable, or declining?

1 growing
2 stable
3 declining
Form 5310
(Rev. Nov. 1982)
Department of the Treasury
Internal Revenue Service
Pension Benefit Guaranty Corporation

Application for Determination Upon Termination;
Notice of Merger, Consolidation or Transfer of Plan
Assets or Liabilities;
Notice of Intent to Terminate
(Under sections 401(a) and 6058(b) of the Internal Revenue Code and
section 4041(a) of the Employee Retirement Income Security Act of 1974)

Complete every applicable part of this form. If an item in an applicable part does not apply, enter N/A.

Multiemployer plans covered by PBGC insurance program, see Purpose on page 1 of the instructions.

Reason for filing (check applicable box(es); see General Instructions):
A □ Notice of plan—(i) Merger, (ii) Consolidation, or (iii) Transfer of plan assets or liabilities to another plan.
B □ Application for ONLY an Internal Revenue Service (IRS) determination letter regarding a plan termination. (This is NOT a notice of intent to terminate for the Pension Benefit Guaranty Corporation.)
C □ Defined benefit plan filing "ONE STOP" (One-Stop filing is a voluntary choice in lieu of separate filings under B and D for):
   (i) Notice of intent to terminate under the Pension Benefit Guaranty Corporation (PBGC) termination insurance program AND
   (ii) Application for an IRS determination letter upon plan termination.
D □ Defined benefit plan filing ONLY a notice of intent to terminate under the PBGC termination insurance program. (This is NOT a request for an IRS determination letter.)

Part I All Filers Complete This Part
1 (a) Name of plan sponsor (see instructions):
   Address (number and street)
   City or town, State, and ZIP code
1 (b) Employer identification number
1 (c) Sponsor's telephone number
1 (d) Employer’s tax year ends
   Month Day Year
1 (e) Business code number
1 (f) Date business incorporated or began
2 (a) Name of plan administrator (if same as 1(a), enter “same”)
   Address (number and street)
   City or town, State, and ZIP code
2 (b) Administrator’s employer identification number
2 (c) Administrator’s telephone number
2 (d) Name, address, and telephone number of person to be contacted if more information is needed (see instructions):
   Name
   Telephone number
   Address
2 (e) Office of the District Director of the key district where sponsor is located (see instructions):
3 If you checked reason for filing B, C, or D, has each party who is required to be notified been properly informed of this filing (see instructions)? □ Yes □ No
4 Type of plan entity (check only one box; see instructions):
   (a) □ Single-employer plan
   (b) □ Plan of controlled group of corporations or trades or businesses under common control
   (c) □ Multiple-employer-collectively-bargained plan (other than a multiemployer plan)
   (d) □ Multiple-employer plan (other)
   (e) □ Other (specify)
5 (a) Plan name
   (b) Plan number
   (c) Plan year ends
6 (a) Is this a defined benefit plan covered under the Pension Benefit Guaranty Corporation termination insurance program (see Part IV instructions)? (i) □ Yes (ii) □ No (iii) □ Not determined
   (b) If you checked "Yes" or "Not determined," have you ever used an employer identification number or plan number in any prior filing with PBGC other than the ones entered on lines 1(b) or 5(b) above? □ Yes □ No
   If "Yes," enter the number(s) previously reported.
7 Indicate type of plan (see General Instruction E):
   (a) □ Defined benefit
      (i) □ Fixed benefit
      (ii) □ Unit benefit
      (iii) □ Flat benefit
   (b) □ Money purchase
   (c) □ Profit-sharing
   (d) □ Other (specify)

Under penalties of perjury, I declare that I have examined this application, including accompanying statements, and to the best of my knowledge and belief it is true, correct and complete.

Signature □ Title □ Date □

Signature □ Title □ Date □

For Paperwork Reduction Act Notice, see page 1 of the instructions.
**Part II**  Complete This Part if You Checked Reason for Filing A

8 Other plan(s) involved in transaction (see instructions):

(a) Plan name...................................................................................

(b) Name of employer...........................................................................

(c) Employer identification number..................................................

(d) Plan number..................................................................................

(e) Date of merger, consolidation or transfer...........................................

(f) If the plan listed in 5(a) is a defined benefit plan attach an actuarial statement of valuation evidencing compliance with the requirements of Code section 401(a)(12) and the Income Tax Regulations under Code section 414(l).

**Part III**  Complete This Part if You Checked Reason for Filing B, C, or D

9 Effective date of plan

10 (a) Has the plan ever received an IRS determination letter? .........

(b) If (a) is “Yes,” enter the file folder number and date of the most recent determination letter and complete (d) through (g). File folder No. .................................................. Date

(c) If (a) is “No” and your reason for filing is B or C, attach a copy of the executed original plan document or joinder/adoption agreement, all plan amendments, trust agreement, group annuity contracts and custodial agreements (do not complete (d) through (g)).

(d) If (a) is “Yes,” has the plan been amended since the last determination letter? ...........

(e) If (d) is “Yes,” and your reason for filing is B or C, attach a copy of the amendment(s) and complete (f) and (g).

(f) Do any of the amendments alter the plan’s vesting provisions? ...........

(g) Do any of the amendments decrease plan benefits? ...........

11 (a) Proposed date of plan termination

(b) Attach copies of records of all actions taken to terminate the plan (see instructions).

(c) Last contribution to the plan:

(i) Date

(ii) Amount (see instructions) $ ...........................................

(iii) For plan year ended

12 Reason for termination (check only one box to indicate primary reason for termination):

(a) □ Change in ownership by merger

(b) □ Liquidation or dissolution of employer

(c) □ Change in ownership by sale or transfer

(d) □ Adverse business conditions (see instructions and attach explanation)

(e) □ Adoption of new plan (see instructions and attach explanation)

(f) □ Other (specify) □

13 Indicate funding arrangement:

(a) □ Trust (benefits provided in whole from trust funds)

(b) □ Trust or other arrangement providing benefits partially through insurance and/or annuity contracts

(c) □ Trust or other arrangement providing benefits exclusively through insurance and/or annuity contracts

(d) □ Custodial account described in Code section 401(f) and not included in (c) above

(e) □ Other (specify) □

14 (a) Name(s) of trustee(s) or custodian(s) ...........................................

(b) Date trust’s accounting period ends

Address (number and street)

City or town, State, and ZIP code

15 Participation (see instructions): Collectively bargained plans and plans filing only a notice of intent to terminate (reason for filing D) do not complete (a) and (c).

(a) (i) Is the employer a member of an affiliated service group? ...........

   If there is uncertainty whether the employer is a member of an affiliated service group, check the “Not Certain” column.

   (ii) If (i) is “Yes” or “Not certain,” did a prior ruling letter rule on what organizations were members of the employer’s affiliated service group or did the employer receive a determination letter on this plan that considered the effect of Code section 414(m)? ...........

   (iii) If (ii) is “Yes,” have the facts on which that letter was based materially changed? ...........

(b) Is the employer a member of a controlled group of corporations or a group of trades or businesses under common control? ...........

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>Not Certain</th>
</tr>
</thead>
</table>

(c) If there is an affiliated service group, check the boxes for the answer to these questions.

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
<th>Not Certain</th>
</tr>
</thead>
</table>
Form 5310 (Rev. 11-82)

15 (Continued):

(c) Complete the following as of the proposed date of plan termination (current year) and as of the end of the 2 prior plan years:

(i) Did the plan satisfy the percentage tests of Code section 410(b)(1)(A)?

(ii) Total number of employees (if more than 100 enter "100 plus").

- Yes
- No

19

Current year

(d) Enter the number of participants employed for the current plan year and each of the 5 prior plan years on the schedule below:

<table>
<thead>
<tr>
<th>Number at beginning of plan year</th>
<th>19</th>
<th>19</th>
<th>19</th>
<th>19</th>
<th>19</th>
<th>Current year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number added during the plan year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total (add lines (i) and (ii))</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number dropped during the plan year</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number at end of plan year (subtract (iv) from (iii))</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total number of participants in this plan separated from service during the plan year without full vesting</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

16 Summary of Participant or Claimant by category:

<table>
<thead>
<tr>
<th>Total number</th>
<th>Amount of monthly benefits as of the most recent payment date</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Retirees and beneficiaries (including disability retirees) receiving benefits</td>
<td></td>
</tr>
<tr>
<td>(b) Active participants eligible for normal retirement</td>
<td></td>
</tr>
<tr>
<td>(c) Active participants eligible for early (but not normal) retirement</td>
<td></td>
</tr>
<tr>
<td>(d) Active participants vested before termination (other than normal or early retirement)</td>
<td></td>
</tr>
<tr>
<td>(e) All other active participants</td>
<td></td>
</tr>
<tr>
<td>(f) Participants separated from service with deferred vested benefits</td>
<td></td>
</tr>
<tr>
<td>(g) Total (add lines (a) through (f))</td>
<td></td>
</tr>
</tbody>
</table>

17 Miscellaneous:

(a) As a result of the termination, are accrued benefits or account balances nonforfeitable as required under Code section 411(d)(3)?

(b) Will the trust continue to operate after termination of the plan (see instructions)?

(c) Were any funds contributed in the form of, or invested in, obligations or property of the employer or any group of corporations or group of trades or businesses under common control?

(d) Will distribution include property other than cash?

(e) For a defined benefit or money purchase plan, do you estimate there will be an accumulated funding deficiency as of the end of the plan year during which the proposed termination date occurs, if no additional plan contributions are made?

(f) (i) If there are unallocated funds which can be reallocated to participants without exceeding the limitations of Code section 415, have these funds been reallocated?

(ii) If (i) is "Yes," did the plan originally contain a provision allowing this allocation?

(iii) If (ii) is "No," was the plan amended to provide for this allocation?

(g) Will any funds be, or have any funds been, returned to the employer? If uncertain check "Not Applicable." If "Yes," enter the estimated amount $.

(h) Is this plan or trust currently under examination or is any issue relating to this plan or trust currently pending before the Internal Revenue Service, the Department of Labor, the Pension Benefit Guaranty Corporation or any court?

(i) Did any participant during the current plan year or in the 5 prior plan years receive a lump-sum distribution (see instructions) or have an annuity contract purchased by the plan from an insurance company on his or her behalf?

(j) Is this a Keogh (H.R. 10) plan?

(k) Does the plan have ESOP/TRASOP features?
18 Defined contribution plans (other than money purchase plans) such as profit-sharing, stock bonus, or other such plans where forfeitures are credited to individual account balances, enter the information for the current plan year and the 5 prior plan years on the following schedule:

(a) Employer contributions
(b) Forfeitures
(c) Explain basis on which forfeitures were allocated

<table>
<thead>
<tr>
<th>Year</th>
<th>19</th>
<th>19</th>
<th>19</th>
<th>19</th>
<th>19</th>
<th>19</th>
</tr>
</thead>
</table>

19 Indicate how distributions will be made on termination (check applicable box(es)):
(a) □ Lump-sum distribution
(b) □ Annuity contract
(c) □ Periodic payments from trust
(d) □ Transfer of assets and liabilities to another plan
(e) □ Other (specify)

20 Statement of net assets available to pay benefits as of the proposed date of plan termination. Read specific instruction 20, and if you checked Reason for Filing C or D, read specific instruction 25(c) before completing this item.

| Assets
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Cash and cash equivalents...</td>
</tr>
<tr>
<td>(b) Receivables—</td>
</tr>
<tr>
<td>(i) Employer contributions</td>
</tr>
<tr>
<td>(ii) Other</td>
</tr>
<tr>
<td>(c) Party-in-interest investments—</td>
</tr>
<tr>
<td>(i) Loans to employer</td>
</tr>
<tr>
<td>(ii) Employer securities</td>
</tr>
<tr>
<td>(iii) Other</td>
</tr>
<tr>
<td>(d) Other investments—</td>
</tr>
<tr>
<td>(i) Government securities</td>
</tr>
<tr>
<td>(ii) Pooled funds/mutual funds</td>
</tr>
<tr>
<td>(iii) Corporate (debt and equity instruments)</td>
</tr>
<tr>
<td>(iv) Real estate and mortgages</td>
</tr>
<tr>
<td>(v) Other</td>
</tr>
<tr>
<td>(e) Buildings and other depreciable property</td>
</tr>
<tr>
<td>(f) Unallocated insurance contracts</td>
</tr>
<tr>
<td>(g) Other assets</td>
</tr>
</tbody>
</table>
| (h) Total assets (add lines (a) through (g))...

| Liabilities and Net Assets
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Accounts and notes payable—</td>
</tr>
<tr>
<td>(i) Past due benefits</td>
</tr>
<tr>
<td>(ii) Employer</td>
</tr>
<tr>
<td>(iii) Other</td>
</tr>
<tr>
<td>(j) Accrued expenses</td>
</tr>
<tr>
<td>(k) Mortgages payable</td>
</tr>
<tr>
<td>(l) Acquisition indebtedness</td>
</tr>
<tr>
<td>(m) Other liabilities</td>
</tr>
<tr>
<td>(n) Total liabilities (add lines (l) through (m))</td>
</tr>
<tr>
<td>(o) Net assets available to pay benefits (subtract line (n) from line (h))</td>
</tr>
</tbody>
</table>
Part IV Complete This Part If You Checked Reason For Filing C or D and checked "Yes" on line 6(a).

If you checked Reason for filing C or D and "Not determined" on line 6(a), completion of this part is optional. However, if you do not complete this part, you must file the plan document, any amendments to the plan document, and the IRS determination letter(s) for the plan as described for lines 22(b), (c) and (g). If PBGC later determines that the termination insurance program covers the plan, you must file the remainder of the information required by this Part (see Part IV instructions).

21 (a) Name(s) of labor organization(s) representing plan participants

<table>
<thead>
<tr>
<th>Address (number and street)</th>
</tr>
</thead>
</table>

| City or town, State, and ZIP code |

<table>
<thead>
<tr>
<th>Telephone number ( )</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Name of principal officer</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Title of principal officer</th>
</tr>
</thead>
</table>

22 Indicate the applicability of items (a) through (i) by checking the appropriate column. Attach each item that is applicable (see instructions):

<table>
<thead>
<tr>
<th>Item</th>
<th>Applicable</th>
<th>Not Applicable</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Power of attorney. File 2 copies if you are filing &quot;one-stop&quot; (see General Instruction H)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Copy of executed plan document</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Copy of executed amendment(s) to the plan document</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) Copy of executed group annuity or group insurance contract(s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(e) Copy of executed trust agreement(s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(f) Copy of executed collective bargaining agreement(s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(g) Copy of IRS determination letter(s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(h) Copy of the most recent actuarial report</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Copy of the most recent financial statement of plan assets</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

23 Indicate the sufficiency of plan assets (see instructions):

<table>
<thead>
<tr>
<th>Item</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Are any participants entitled to receive benefits assigned to categories 1 through 4 under ERISA section 4044?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>If &quot;Yes,&quot; complete (b); if &quot;No,&quot; enter N/A in (b), (c), (d), and (e).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Do you estimate that plan assets (excluding any amount described in (d) below) are adequate to provide all the benefits assigned to categories 1 through 4 on the proposed date of plan termination?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>If &quot;Yes,&quot; enter N/A in (c) and complete item (d); if &quot;No,&quot; complete (c) and (d).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Indicate the estimated amount by which the value of benefits in categories 1 through 4 exceeds the value of plan assets on the proposed date of plan termination</td>
<td>$</td>
<td></td>
</tr>
<tr>
<td>(d) Is the employer making a commitment (in the form prescribed in the PBGC regulation on determination of plan sufficiency) before the proposed date of plan termination to pay, on or before the date assets are distributed, the amount needed to provide all benefits in categories 1 through 4?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>If &quot;Yes,&quot; attach a signed copy of the commitment; if &quot;No,&quot; complete (e).</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(e) Has the plan sponsor paid or does the sponsor intend to pay employer liability as prescribed in the PBGC regulation on employer liability before PBGC's request for payment?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: Interest on employer liability will accrue from the date of plan termination.

24 Submit participant data schedules in the format shown in the instructions for the following groups of participants:

(a) Retired participants and beneficiaries receiving benefits from the plan;
(b) Participants separated from service not yet receiving vested benefits from the plan; and
(c) All other participants with vested or non-vested accrued benefits.

25 Indicate the information you are filing with this notice by checking one of the following boxes (see instructions):

(a) [ ] I am filing a complete Form 5310 including required attachments.
(b) [ ] I am filing a complete Form 5310 except the information showing plan assets allocated to participants (see note below).
(c) [ ] I am filing a complete Form 5310 except plan asset information (line 20) and participant data schedules (line 24). I will file the information required by lines 20 and 24 within 90 days after the date of this filing. (See note below.) By not filing lines 20 and 24 with the form, I am agreeing to extend the 90-day period prescribed by ERISA section 4041(a) during which I will not make any distributions pursuant to the proposed termination of the plan.
(d) [ ] With this form I am filing a request for an extension of time to file the information required by line(s) (other than the information required by lines 20 and 24). (See note below.) For more information about extensions see the instructions.

Note: If you checked reason for filing C and you are not sending all the information required in Parts I, III, IV, and either completed Form(s) 6088 or a second copy of the complete participant data schedules described in the line 24 instructions of Form 5310, the 270-day period prescribed by Code section 7476(b)(3) will not commence until you file the remaining required information.
<table>
<thead>
<tr>
<th>PAYER'S name, address, ZIP code, and Federal identifying number</th>
<th>1 Amount includable as income (Add boxes 2 and 3)</th>
<th>2 Capital gain (For lump-sum distributions only)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3 Ordinary income</td>
<td>4 Federal income tax withheld</td>
</tr>
<tr>
<td></td>
<td>5 Employee contributions to profit-sharing or retirement plans</td>
<td>6 Net unrealized appreciation in employer's securities</td>
</tr>
<tr>
<td>RECIPIENT'S name, address, and ZIP code.</td>
<td>Recipient's identifying number</td>
<td>7 Category of distribution</td>
</tr>
<tr>
<td></td>
<td>8 IRA, SEP or DEC distributions</td>
<td>9 Other</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
</tr>
</tbody>
</table>

This does ___ does not ___ qualify as a lump-sum distribution.

Your percentage of total distribution: ___

Death benefit exclusion does ___ or does not ___ apply.

Copy B

For Recipient
ISSUES RELATING TO SMALL BUSINESS PENSION PLANS

Final Report

submitted to the

U.S. SMALL BUSINESS ADMINISTRATION

May 24, 1985
1.0 Introduction

The purpose of this report is to identify micro (firm-specific) and macro (small-business-wide) issues and problems associated with small business pension plans.¹ This report addresses issues implicit in:

- pension plan selection and design; and
- pension plan installation and maintenance.

Findings from the study are based on 1) the results of a survey of a limited number of small businesses (n=31), and 2) a review of the literature on small business pension plans.² Consideration is given to 1) characteristics of small business pension plans, 2) the decision-making process used by small businesses in evaluating, adopting and operating pension plans; and 3) resources and expertise required to evaluate and operate small business pension plans.

A major issue addressed in this report is why small businesses are less likely than large businesses to offer pension plans. Major policy implications stem from this difference, as it may impact the quality of the small business workforce and small businesses' ability to compete with large businesses. In summary, principal factors which explain this difference include:

- complex and changing federal regulations, in particular regulations which affect plan design, reporting, and recordkeeping; closely related factors are the large fixed cost of compliance and the virtual lack of concessions to small businesses in the regulations;³

¹ For purposes of this discussion, "pension plans" refers to any plan designed to provide deferred compensation.

² The small sample size precluded the development of statistically valid estimates of plan selection and maintenance characteristics of all small businesses. A larger survey is not justified, however, because small business owner/operators are typically not well informed about why they do or don't have a pension plan, or about the plan itself. Survey results are presented in Appendix A, a Bibliography is presented in Appendix B, and a copy of the survey questionnaire is provided in Appendix C.

³ Thirty-seven percent of the firms in our survey with less than 20 employees have pension plans, compared to 47 percent of the firms with 20-99 employees. The likelihood of there being a

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many of the small businesses in our survey (apparently correctly) believe that the regulations are so complex that the time and money required to comply are greater than the benefits available from a pension plan;

• inadequate or inaccurate information available to small businesses about pension plan choices and benefits (most of which is provided by insurance companies, brokers, and other less than objective sources); the typical small business which has a pension plan was given little or no choice in plan design; most of the important decisions are made by professional plan administrators;

• lack of stable revenues and profits, which precludes certain types of plans; and

• perceptions of small business owners that pension plans are too costly, too complex to install, or otherwise unsuitable for small businesses; these perceptions exaggerate the real problems, and appear to reflect the lack of reliable information, regulatory complexity, and preferences for current compensation.

Two of these factors might be mitigated. First, there has been little reliable, objective analysis on the tradeoffs involved (e.g., contribution flexibility, tax deductions, administration costs) in choosing among different types of plans. An objective analysis of these tradeoffs would enable small

4 Recent changes in pension law imply that Congress is primarily concerned with tax implications at the expense of the health of private pensions. See Krogman, Robert, "Pension Reform Legislation Continues to Add to Employers' Pension Plan Costs," AMA Forum, August 1984, 31-32. ERISA and subsequent legislation have been shown to have had a negative long-term effect on new plan qualifications. See, for example, Ledolter, Johannes, and Mark L. Power, "A Study of ERISA' Impact on Private Retirement Plan Growth," The Journal of Risk and Insurance, v. 18, 1984, 224-243.

5 Eight of the 13 firms in our survey which were founded before 1960 have plans, compared to 5 of the 17 founded since 1960 (age of firm is a likely proxy for revenue stability and declining need for self-financing, among other factors). Moreover, nearly 50 percent of the respondents with growing revenues have a plan, compared to 30 percent of the respondents with stable or declining revenues.
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businesses to make more informed pension plan choices.

Second, the aspects of Federal pension regulations that most impact small businesses (e.g., reporting requirements, top heaviness, key employee provisions) have not been adequately studied, even by the agencies that promulgate and enforce these regulations. Determining what aspects of pension regulations have the most significant impacts on small businesses and examining the potential for regulatory reform would enable SBA and/or other agencies to reassess existing regulations in light of their impact on small businesses.

2.0 Plan Selection and Design

Small business owners initially face two major decisions with regard to pension plans -- whether to have any plan, and, if so, what type of plan to install. The latter decision is complicated by the wide variety of plans available, including:

- defined benefit plans, in which each employee's benefit is predetermined (usually based on the employee's earnings and/or length of service). Of the thirteen firms in our survey which have pension plans, only two have defined benefit plans. Moreover, three of the four firms that had dropped plans previously had defined benefit plans. Firms which dropped defined benefit plans cited the high costs imposed by ERISA on defined benefit plans compared to defined contribution plans.

- defined contribution plans, in which the employer's plan contributions are predetermined. Eleven of the 13 firms with pension plans had one or more defined contribution plans. Defined contribution plans are increasingly popular because 1) regulatory requirements under ERISA are relatively less, 2) the employer's cost commitment is known (investment risk is borne by the employee), and 3) employers can avoid the exposure of up to 30% of corporate net worth in the case of unfunded defined benefit liabilities.

6 The relative merits of defined contribution and defined benefit plans is a complex issue. Briefly, the major advantage of a defined benefit plan is that it can be structured to provide a specific income replacement objective. On the other hand, small firms apparently favor defined contribution plans. Many of the benefit formulae used in defined benefit plans require maintaining detailed records concerning annual earnings and length of service. Also, defined contribution plans 1) provide
There are several types of defined contribution plans:

- **Money purchase pension plans**, in which the firm contribution is fixed. Two of the thirteen firms with pension plans had money purchase pension plans. Employee retirement benefits vary depending on such factors as amount of contribution, investment earnings on plan assets, and employee entry age. These plans are often contributory -- that is, the employer's contribution matches or is a multiple of the employee's contribution.

  Money purchase pension plans require fixed annual contributions -- usually a percentage of payroll--regardless of profits. As such, money purchase plans should be considered only if a firm's earnings record shows a reasonable amount of stability (which is often not the case for small businesses).

- **Profit sharing plans** in which firm contributions, if any, are paid out of firm profits. Seven of the thirteen firms in our survey with pension plans had profit-sharing plans. These plans are more flexible than other plan types in terms of level of contributions (which are fixed as a percentage of profits, not of wages), and are easier to install and administer, since ERISA imposes less burdensome regulations on profit-sharing plans compared to other types of plans. Unlike defined benefit plans, profit-sharing plans can allow early withdrawal of employer or employee contributions for non-retirement purposes under certain circumstances.

- **Thrift plans** have lower contribution levels than other profit sharing plans. Employee participation is voluntary, and employer contributions depend on employee (after-tax) contributions, given certain minimum and maximum levels. During active employment,

  that the employee's account balance is payable in the event of death, disability, or termination of employment, and 2) are "age neutral," (i.e., do not force younger employees to subsidize older employees). A full analysis of this issue is beyond the scope of this paper.

7 There is some overlap among these categories of defined contribution plans, and concomitant confusion among respondents to our survey as to what type of plan they have. For example, a 401(k) plan can also be a profit-sharing plan, a thrift plan, and/or an ESOP.

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employees can withdraw their contribution and some proportion of the employer contribution for specific financial needs (e.g., purchasing a house).

- **cash or deferred arrangements (CODAs),** (also known as 401(k) plans), which are a variation on conventional profit-sharing or thrift plans. Employees are given a choice of receiving an amount in the form of currently taxable compensation or of deferring this amount to be taxed at some future time. CODAs have special nondiscrimination requirements and are more complex and costly to administer than any other type of defined contribution plan. Their principal advantage is that they provide employees with the flexibility to choose between take-home pay and retirement contributions on a year-to-year basis. (One firm in our survey had a CODA.)

- **employee stock ownership plans (ESOPs),** which are any type of qualified pension plan (including profit-sharing and thrift plans) that invests some or all of its assets in employer securities. Advantages of an ESOP include creating a proprietary interest in the firm on the part of employees and facilitating the owner's sale of the firm. The principal disadvantage is that employees' security may be too closely tied to the fortunes of the employer. (One firm in our survey had an ESOP.)

- **simplified employee pension plans (SEP),** in which the employer makes a contribution to employees' IRAs (subject to higher contribution limits than the employees themselves). The chief advantage of a SEP is its simplicity. No formal plans or trusts are required. All that is required is a written allocation formula (i.e., the proportion of salary that will be contributed by the employer), and completion of a half-page form (Form 5305-SEP). Employer contributions are discretionary without any regard to profits or any other criteria, and annual reporting is greatly simplified. Disadvantages of the SEP are that 1) lump sum distributions do not qualify for 10-year averaging, 2) no voluntary contributions are permitted, and 3) participation rules are more stringent than for other types of plans. (One firm in our survey had a SEP.)

In addition to selecting a type of plan, employers must make decisions as to a wide variety of plan characteristics, subject to the minimum standards of ERISA, including:

- who will be covered (eligibility requirements);
the amount of the firm contribution (in a defined benefit plan, choosing a benefit formula);

whether the plan will allow for voluntary contributions;

when employees will be permitted to enter (participate in) the plan;

when employee benefits will be vested; and

what happens to benefits when an employee terminates employment.

These factors determine 1) whether a plan is tax qualified (i.e., whether employer contributions are tax deductible), and 2) who will benefit from the plan and how much. These characteristics are also important with regard to optimizing tax benefits or any other plan criterion. For example, maximizing tax benefits may affect the choice of benefit formula, integration with social security benefits, level of funding chosen, funding instrument chosen, and type of plan adopted. Potential criteria in plan choice and design are discussed below.

2.1 Factors Affecting Plan Selection and Design

The decision on whether to have a pension plan must take into account a variety of factors, as must the choice of a particular type of plan. Factors which favor a plan include:

- Competitive necessity. In our survey, the reason most frequently cited for having a plan (by 8 of 13 firms) was to retain good employees. Employers hire employees in a free, competitive labor market. Therefore, as the number of plans increase, employees come to expect a plan as part of the employment relationship. Employers who do not have such a plan are at a competitive disadvantage in attracting and holding personnel.

- Accumulating funds for retirement. Pension plans constitute a form of forced saving. Although it can be argued that, in the absence of a pension plan, employees would make equivalent provision for old age through individual savings, the evidence suggests that many people would not do so. In addition, a pension plan permits employers to terminate older employees in a

---

8 To the contrary, there is evidence that employees at firms with pension plans save more than employees at firms without plans. See Cogan, Philip, The Effect of Pension Plans on Aggregate Saving, National Bureau of Economic Research, 1965.
humanitarian manner. In our survey, accumulating funds for retirement and protecting employees were cited by 5 of 13 employers with plans as a reason for having a plan. This factor also tended to be cited by respondents who did not have a plan but who intended to install one.

**Tax considerations.** Employers' contributions to qualified pension plans are deductible for federal income tax purposes and investment income earned on pension trust assets is exempt from federal income tax until distributed. From the employee's standpoint, employer contributions to a pension fund do not constitute taxable income in the year in which the contribution is made, and contributions can accumulate tax-free until distribution. Distributions from a pension plan may be taxed on a favorable basis under certain circumstances, and a limited estate tax exclusion is available for certain death benefits. In certain types of plans, the employee's own voluntary contributions may not be taxable until distribution.

The importance of this factor depends in part on the current and future tax bracket of the affected firm or individual. Small businesses in general face lower tax rates than large businesses. Therefore, the value of a deduction for contributions is less. However, small business owners are typically in high personal income tax brackets. In our survey, tax considerations were likely to be cited as a reason for having a plan by owners of very small firms (fewer than 20 employees), who themselves are likely to benefit directly from these tax advantages.9

**Unionization.** Firms with unionized workers are more likely to have pension plans than other firms. National Labor Relations Board and court decisions in the late 1940's held that an employer cannot install, terminate, or alter the provisions of a pension plan covering organized workers without the approval of the authorized bargaining agent for those employees. The few unionized firms in our sample all have pension plans.10

9 Owners of very small firms receive a large proportion of the total tax advantages accruing from their firms' plans.

10 Many unionized firms have multiemployer pension plans. These are plans that cover workers at two or more unrelated companies in accordance with a collective bargaining agreement. These plans are typically defined benefit plans, and may also
On the other hand, there are a number of reasons for small businesses not to have a pension plan:

- **Lack of revenues/profitability.** The primary reason cited by respondents for not having a plan, and/or for dropping a previous plan, is the perception that unless the firm is consistently profitable, a plan is neither affordable nor worthwhile.

- **Complex and changing federal regulations.** Firms responding to our survey find government regulations complex, their future uncertain, and the attendant administration and paperwork burdensome and costly. For example, plan sponsors (excepting SEP-IRA plans) must file an annual report with the IRS. The report must provide detailed information on the number of plan participants, distributions made to participants and beneficiaries, and the amount and nature of plan assets. (These annual filing requirements in particular were cited by several respondents.) Other reports must be filed when certain events occur, e.g., the Department of Labor must be notified when a new plan is established, and the Pension Benefit Guaranty Corporation must be notified when a defined benefit plan is terminated.

Defined benefit plans are more heavily regulated and are otherwise more costly to administer (e.g., requiring use of complicated actuarial techniques) than other types of plans. Additional requirements imposed by ERISA on defined benefit plans include:

- minimum funding standards;
- calculating and paying insurance premiums to the Pension Benefit Guaranty Corporation; and
- more detailed and complicated actuarial disclosure reports.

These additional requirements reflect the need to ensure the eventual availability of sufficient funds to pay the required benefit. (Regulatory requirements are addressed in more detail in Section 3.)

- **Other administrative costs.** Administration consists not only of responding to Federal regulations, but also of maintaining the plan itself (e.g., employee record-
keeping, investment decisions). In this regard, defined benefit plans are more costly to administer because, in addition to premiums which must be paid to the Pension Benefit Guaranty Corporation, fees must be paid for actuarial computations. Cost-related factors (including start-up cost and administrative cost) were cited by 12 of the 16 survey respondents who do not have a plan and who answered this question.

Employers and/or employees are covered by other plans. When the high administration costs of pension plans are taken into account, some employers feel that the marginal benefit of a plan is insufficient, and that employees can provide for retirement from other sources. Other plans are typically IRA's, but some owners in our survey were of the opinion that Social Security is sufficient. Similarly, a few owners indicated that providing a pension plan is not their responsibility.

Employers prefer to build equity in the firm. Retained earnings are often a major source of capital for growing small businesses. Reinvesting earnings in the business rather than in a pension plan was often cited by very small firms where the owner would otherwise be the primary beneficiary of a plan.

A plan is perceived to be incompatible with the nature of the firm's employment. A relatively high proportion of small businesses employ mostly part-time employees and/or have a high turnover rate. Such firms apparently find it impractical to offer a pension plan, since part-time employees are typically not covered by plans, and high employee turnover can make the plan unprofitable. Note, however, that ERISA does not require employers to provide pension plans to all their employees.

The firm provides other benefits. Depending on the age and preferences of the employer and employees, other benefits (for example, flexible compensation plans) may be more important than a pension plan. Health insurance for example is typically provided before pension coverage.

Some of the above factors also support particular types of plans for particular firms. For example, projected future earnings may rule out defined benefit or money purchase plans (which require constant year-to-year contributions). Other factors which affect plan choice and design include the rate of labor turnover, the ratio of younger to older employees, and the ownership structure of the firm.
A final factor in plan design of particular significance to small businesses is "top heavy" rules. Top-heavy rules 1) severely restrict choices of vesting rules, 2) require minimum contributions or benefits for non-key employees, and 3) restrict contributions and benefits for, and distributions to, key employees.

While the apparent intent of these rules was to minimize the tax break for high-income earners in top-heavy plans, the changes penalize all other participants as well. If maximum contribution limits mean that a small firm is now able to shelter only 10% of income instead of 15%, benefits to employees covered in the plan will decrease proportionately. Moreover, higher income earners can seek out other tax shelters, an option not readily available to lower-paid employees.

Exhibit 1 summarizes the above discussion by providing some indication of trade-offs in plan characteristics among the different types of plans. Generally, low-cost, simple plans provide fewer tax benefits or less contribution flexibility than high cost plans. Occasional articles in the literature have addressed these and other trade-offs for small businesses, with the following conclusions:

- if maximizing owner wealth is the principal criterion, defined benefit plans are generally more favorable than defined contribution plans if the owner is closer to retirement age than are the employees (because, under defined benefit plans, younger workers implicitly subsidize older workers); and
- given the same assumption, some form of plan is always preferable to no plan, but minor changes in other factors can have a significant impact on the tax consequences of different plans (e.g., the greater the percentage of the firm owned by the employer, the less favorable a retirement plan is); and

---

11 A top heavy plan is one that primarily benefits key employees (generally, an officer, one of the ten largest owners, a 5% owner, or a 1% owner whose annual compensation exceeds $150,000). Generally a plan is top-heavy if the total of the plan assets of the key employees exceeds 60% of all plan assets. A large proportion of small business plans are top heavy.


13 Ibid.
Exhibit 1
Tradeoffs Among Plan Characteristics and Types

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Contribution Flexibility</th>
<th>Maximum Tax Deduction Available</th>
<th>Relative Installation and Administration Costs</th>
<th>Impact on Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined Benefit</td>
<td>none</td>
<td>10-25% (see below)²</td>
<td>high</td>
<td>increase security</td>
</tr>
<tr>
<td>Defined Contribution</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Money Purchase</td>
<td>none</td>
<td>25% $30,000</td>
<td>medium</td>
<td>increase security</td>
</tr>
<tr>
<td>Profit Sharing</td>
<td>high</td>
<td>15% $30,000</td>
<td>medium</td>
<td>incentive to increase profits</td>
</tr>
<tr>
<td>Thrift</td>
<td>high</td>
<td>6% $30,000</td>
<td>high</td>
<td>incentive to save</td>
</tr>
<tr>
<td>401(k)</td>
<td>very high</td>
<td>25%³ $30,000</td>
<td>very high</td>
<td>depends on how contributions are made</td>
</tr>
<tr>
<td>SEP</td>
<td>very high</td>
<td>15% $30,000</td>
<td>very low</td>
<td>depends on how contributions are made</td>
</tr>
</tbody>
</table>

Sources: Brokerage house materials (e.g., Prudential-Bache, Drexel Burnham, Shearson); Allen, Everett T., Pension Planning, Homewood, IL: R.D. Irwin, 1984.

---

1 Maximum employer contribution as a proportion of compensation. Does not take into account varying potential for voluntary deductible contributions.

2 Maximum contribution is amount sufficient to provide a monthly benefit of $7,500 at retirement.

3 May depend on contributions of other employees.
from the employees' perspective, defined benefit plans have important drawbacks, including susceptibility to inflation impacts, and lack of age neutrality.\textsuperscript{14}

3.0 Plan Installation and Administration

The preparation of the necessary legal documents is the first step in installing a plan. These include: the form which explains all the provisions of a plan (trust agreement, plan instrument, or group contract), authorizing resolutions, and enrollment and refusal forms. Most insurance companies and brokerage firms have specimens of the various legal documents involved, including master and prototype plans. Other important steps include:

- announcing the plan to employees.
- enrolling employees.
- selection of a funding instrument.
- selecting a plan administrator/trustee.

Small business plans are typically administered by an insurance company or by the employer (other possibilities include accountants and lawyers). Plans must provide for a trustee except in case of an annuity plan where contracts are bought from an insurance company. Trustees are subject to fiduciary responsibility rules.

Plan administration covers two broad areas -- 1) actions which relate to the plan as a whole (e.g., investment decisions, reporting), and 2) actions which relate to specific individuals. Major areas of responsibility (and sources of expense) in maintaining a pension plan include reporting, recordkeeping, and managing plan assets.

Reporting. Pension plan reporting requirements are summarized in Exhibit 2. For example, plan sponsors (excepting SEP-IRA plans) must file an annual report with the IRS. The report must provide detailed information on the number of plan participants, distributions made to participants and beneficiaries, and the amount and nature of plan assets. (These annual filing requirements in particular were said to be burdensome by several respondents.) Other reports must be filed when certain events occur, e.g., the Department of Labor must be notified when a new

Exhibit 2

Pension Reporting Requirements

1. To plan participants

<table>
<thead>
<tr>
<th>Item</th>
<th>Automatically</th>
<th>On request</th>
<th>For review</th>
<th>When</th>
</tr>
</thead>
<tbody>
<tr>
<td>summary plan description</td>
<td></td>
<td>X</td>
<td></td>
<td>within 90 days after employee joins plan; within 120 days after plan is subject to ERISA; new summary every 10 years</td>
</tr>
<tr>
<td>plan documents</td>
<td></td>
<td>X X</td>
<td></td>
<td>10 days after review request; 30 days after request for copies</td>
</tr>
<tr>
<td>summary of material modification</td>
<td>X</td>
<td></td>
<td></td>
<td>210 days after end of plan year in which modification is made</td>
</tr>
<tr>
<td>annual report (Form 5500)(^\d)</td>
<td></td>
<td>X X</td>
<td></td>
<td>as soon as filed with IRS</td>
</tr>
<tr>
<td>summary annual report</td>
<td>X</td>
<td></td>
<td></td>
<td>within 2 months after filing</td>
</tr>
<tr>
<td>benefits statement for terminating vested employees</td>
<td>X</td>
<td></td>
<td></td>
<td>within 180 days after end of plan year</td>
</tr>
<tr>
<td>personal pension benefits statement</td>
<td></td>
<td>X</td>
<td></td>
<td>60 days after request or 120 days after end of plan year</td>
</tr>
<tr>
<td>explanation of claims denial</td>
<td>X</td>
<td></td>
<td></td>
<td>within 90 days</td>
</tr>
<tr>
<td>plan termination report (Form 5310)</td>
<td></td>
<td>X X</td>
<td></td>
<td>after report is filed with IRS</td>
</tr>
<tr>
<td>Joint and survivor notification</td>
<td>X</td>
<td></td>
<td></td>
<td>depends on plan provisions</td>
</tr>
<tr>
<td>notification of intent to terminate</td>
<td>X</td>
<td></td>
<td></td>
<td>10 days prior to termination date</td>
</tr>
<tr>
<td>notice to interested parties</td>
<td>X</td>
<td></td>
<td></td>
<td>24 days before determination of plan status</td>
</tr>
</tbody>
</table>

\(^\d\) Selected sample forms are provided in Appendix C. For small plans, Form 5500 C is due every three years and Registration Statement R for the two intervening years.

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## Exhibit 2 (cont.)

**Pension Reporting Requirements**

2. To government agencies

<table>
<thead>
<tr>
<th>Item</th>
<th>Agency</th>
<th>When</th>
</tr>
</thead>
<tbody>
<tr>
<td>summary plan description</td>
<td>DOL</td>
<td>120 days after plan becomes subject to ERISA; new summary every 10 years</td>
</tr>
<tr>
<td>plan documents</td>
<td>DOL</td>
<td>on request</td>
</tr>
<tr>
<td>summary of material modification</td>
<td>DOL</td>
<td>210 days after end of plan year in which modification was made</td>
</tr>
<tr>
<td>annual report (Form 5500)</td>
<td>IRS</td>
<td>7 months after end of plan year</td>
</tr>
<tr>
<td>annual information returns (Form 1099R)</td>
<td>IRS</td>
<td>30 days after end of plan year, for each beneficiary who receives a distribution</td>
</tr>
<tr>
<td>plan termination report (Form 5310)</td>
<td>IRS</td>
<td>30 days prior to plan termination</td>
</tr>
<tr>
<td>notification of intent to terminate</td>
<td>PGBC</td>
<td>(defined benefit plans); 10 days prior to termination</td>
</tr>
</tbody>
</table>

plan is established, and the Pension Benefit Guaranty Corporation must be notified when a defined benefit plan is terminated.

**Recordkeeping.** Plan administrators should maintain:

- a list of names, addresses, and phone numbers of all individuals who are associated with the plan and its administration (e.g., participants, trustees);

- pertinent data on each participant (e.g., earnings, date of participation); more extensive data (e.g., age, retirement date) are required for defined benefit plans;

- a digest of major plan provisions, and records of calculations used in determining benefits; and

- a complete history of pension fund receipts and disbursements.

Although contributions made to the plan are the major cost of maintaining the plan, the cost of keeping adequate records is probably the most underestimated cost of maintenance.

**Investment Management.** Small businesses typically use outside organizations to manage plan assets (11 of the 13 firms in our survey with pension plans did). Of the nine respondents who were aware of the type of investment management organization used, four use insurance companies, three use investment advisory firms, and one uses a law firm. The remaining firm has a multi-employer plan which is managed by union and management trustees.

**Fees.** Exhibit 3 shows typical plan installation and administration fees. These are considerable (e.g., a firm with less than 10 employees would pay $1850 in first year costs for a defined benefit plan). These fees do not include investment management, for which fees typically range from less than 1% to 2% of assets.

### 3.1 Conclusion

In conclusion, small business reluctance to install pension plans reflects 1) complex and changing Federal regulations, 2) inaccurate or inadequate information available to small businesses about pension plans, 3) lack of stable revenues and profits, and 4) small business owners' perceptions that pension plans are too costly, too complex, or otherwise unsuitable for small businesses. The latter perceptions exaggerate real problems. Potential actions to mitigate these problems include 1) an objective analysis of tradeoffs for small businesses among pension plan choices, and 2) an analysis of which Federal pension regulations have the most significant impact on small businesses.

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Exhibit 3
Pension Plan Installation and Administration Fees

<table>
<thead>
<tr>
<th>Type of Plan</th>
<th>Installation</th>
<th>Administration</th>
<th>Termination</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defined Benefit</td>
<td>$1200 plus</td>
<td>$650 plus $25</td>
<td>$750</td>
</tr>
<tr>
<td></td>
<td>$25 per part.</td>
<td>per part. over 10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>over 10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Defined Contribution</td>
<td>$1000 plus</td>
<td>$500 plus $25</td>
<td>$500</td>
</tr>
<tr>
<td></td>
<td>$25 per part.</td>
<td>per part. over 10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>over 10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit Sharing/Thrift with 401(k) provisions</td>
<td>$1200 plus</td>
<td>$650 plus $25</td>
<td>$750</td>
</tr>
<tr>
<td></td>
<td>$25 per part.</td>
<td>per part. over 10</td>
<td></td>
</tr>
<tr>
<td></td>
<td>over 10</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plan Amendments</td>
<td>$400-600</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Fee schedule of one selected professional plan administrator. Note that defined contribution plan fees may be artificially high because of the reduced potential for additional administrator income from such plans.
APPENDIX A - SURVEY RESULTS

A.1.0 Sample Selection

The sample was selected as follows:

- characteristics of a representative sample, stratified by industry and firm size, were developed;
- an initial sample was selected, using this framework; firm names and other data were obtained from local (Washington metropolitan area) and other industrial directories; and
- non-respondents were replaced using the same procedure.

A.1.1 Survey Response

Table 1 shows the characteristics of firms interviewed for the survey of small business experience with pension plans. In summary:

- slightly over one-third of the respondents have 9 or fewer full-time employees; another one-third has between 10 and 30 employees;
- by industry, respondents are almost evenly distributed among the construction, manufacturing, wholesale and retail, and services sectors;
- most (27 of 31) are corporations; the remainder are sole proprietorships;\(^\text{15}\)
- the median firm age is approximately 20 years; 13 firms were founded before 1960; and
- over two-thirds reported that their revenues are currently increasing (reflecting the economic climate).

Table 2 provides statistical information on employee characteristics of firms in the sample. Nearly half reported that most of their employees are under 40; and 55 percent reported that most of their employees are men.

A.2.0 Firms with Pension Plans

Fifty-five percent of the employees covered by the survey

\(^{15}\) Several of these firms incorporated only recently, in response to changes in tax law.

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Table 1

Firm Profile
(n=31)

<table>
<thead>
<tr>
<th>Industry</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>7</td>
<td>23%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9</td>
<td>29%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>4</td>
<td>13%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>6</td>
<td>19%</td>
</tr>
<tr>
<td>Services</td>
<td>5</td>
<td>16%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Form of Business</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporation</td>
<td>27</td>
<td>87%</td>
</tr>
<tr>
<td>Proprietorship</td>
<td>4</td>
<td>13%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year Founded</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1981-present</td>
<td>3</td>
<td>10%</td>
</tr>
<tr>
<td>1975-1980</td>
<td>5</td>
<td>16%</td>
</tr>
<tr>
<td>1970-1974</td>
<td>5</td>
<td>16%</td>
</tr>
<tr>
<td>1960-1969</td>
<td>5</td>
<td>16%</td>
</tr>
<tr>
<td>Before 1960</td>
<td>13</td>
<td>42%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Revenue</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Growing</td>
<td>21</td>
<td>68%</td>
</tr>
<tr>
<td>Stable</td>
<td>8</td>
<td>26%</td>
</tr>
<tr>
<td>Declining</td>
<td>2</td>
<td>6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>0</th>
<th>1-9 (35%)</th>
<th>10-19 (16%)</th>
<th>20-49 (35%)</th>
<th>50-99 (13%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full time</td>
<td>0</td>
<td>11 (35%)</td>
<td>5 (16%)</td>
<td>11 (35%)</td>
<td>4 (13%)</td>
</tr>
<tr>
<td>Part time</td>
<td>19</td>
<td>10 (32%)</td>
<td>2 (6%)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seasonal</td>
<td>28</td>
<td>3 (10%)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Justin Research Associates, Inc.
Table 2
Employee Characteristics
(n=31)

<table>
<thead>
<tr>
<th>Age</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mostly younger than 40</td>
<td>13</td>
<td>43%</td>
</tr>
<tr>
<td>Mostly older than 40</td>
<td>6</td>
<td>19%</td>
</tr>
<tr>
<td>Roughly equal proportions</td>
<td>11</td>
<td>35%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Gender</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mostly women</td>
<td>3</td>
<td>10%</td>
</tr>
<tr>
<td>Mostly men</td>
<td>17</td>
<td>55%</td>
</tr>
<tr>
<td>Roughly equal proportions</td>
<td>11</td>
<td>35%</td>
</tr>
</tbody>
</table>
employed by firms with pension plans. Employee characteristics (i.e., predominant age or gender) do not appear to affect the likelihood that a firm will have a plan.

Thirteen of the 31 firms contacted (42 percent) have pension plans. Larger firms, older firms, firms with growing revenues, and firms in manufacturing, construction and services are slightly more likely to have plans:

- 37 percent of the firms with less than 20 employees have pension plans, compared to 47 percent of the firms with 20-99 employees; the likelihood of their being a plan increases with firm size, reflecting economies of scale in plan implementation and operation;

- eight of the 13 firms founded before 1960 have plans, compared to 5 of the 17 founded since 1960; (age of firm is a likely proxy for revenue stability and declining need for self-financing, among other factors);

- nearly 50 percent of the respondents with growing revenues have a plan, compared to 30 percent of the respondents with stable or declining revenues; firm profitability and the cost of a plan are major considerations for small businesses in deciding whether to have a plan; and

- nearly 70 percent of the manufacturing firms have plans, 40 percent of the firms in construction and services, and 20 percent of the firms in wholesale and retail trade; industry is related to the likelihood that a firm will have a plan not only because industry and firm size are related (for example, manufacturing firms tend to be larger than other small businesses) but also because plans are customary in certain industries (e.g., manufacturing) and not customary in others (e.g., trade); respondents in the latter

Previous studies have indicated that, overall, slightly less than 50 percent of employees in establishments with less than 100 employees were covered by pension plans. The higher figure in this survey presumably reflects the disproportionate number of older, larger small businesses.

For certain types of plans, at least occasional profitability is effectively required by regulation if the plan is to continue. In profit sharing plans, firm contributions are paid out of firm profits. IRS regulations require that contributions under profit-sharing plans must be "substantial and recurring."

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industries were not knowledgeable about the concept and potential benefits of pension plans.

A.2.1 Reasons for Choosing the Particular Type(s) of Plan(s)

Respondents gave a wide variety of reasons for choosing a particular type or types of plan. Fully half of the firms with plans have adopted profit-sharing plans because contributions are not required when the firm is not making a profit (although the firm must occasionally be profitable). This takes into account uncertainty about future earnings which is characteristic of small business. Ease of start-up of profit-sharing plans was also cited frequently as a reason for choosing that type of plan.

Other reasons cited include benefits to owners/management, avoiding investment risk, avoiding investment decisions, higher deduction limitations, advice of accountants or lawyers, "the union", and "someone came and sold it."

A.2.2 Employee Participation and Vesting

Overall, 50 percent of the full-time employees in the firms covered by this survey participate in one or more firm pension plans. Only six respondents knew how many of their employees were vested in one or more plans. In these firms, 91 percent of all participating employees were either fully or partially vested.

Participation refers to what proportion of employees are included in the plan. In most plans, employees become eligible to participate when they reach age twenty-one and have completed one year of service. An exception applies to plans with immediate vesting (see below); such plans may require three years of service. Certain categories of employees, e.g., union members under a collective bargaining agreement, may also be excluded from participation.

By far the most common reason given for why some employees were not participants was that they had not been with the firm long enough. Other factors included part-time employees, and employees who declined to participate.
Of the eleven firms whose respondents were familiar with the vesting schedule, five require 10 years continuous service before an employee is fully vested in the plan (the ten-year service rule). One does not fully vest employees until they have 15 years of continuous service (the graded fifteen years service rule). Four fully vest their employees in six years, and one vests employees immediately. The latter four firms may have "top-heavy" plans. If so, they must choose between three-year "cliff" vesting, graded six-year vesting, or a more accelerated schedule.

Most firms' plans neither require nor allow any employee contributions. Two firms have plans which allowed such contributions (a profit sharing plan and an SEP, respectively), one had a plan which required them (the "informal" plan), and one had a 401(k) plan under which the employer's contribution depended on the employee's contribution.

Respondents were generally ignorant of other more technical aspects of their plans. Relatively few understood what was meant by integration with Social Security. Most did not understand top-heaviness when that topic was raised by the interviewer.

---

21 Vesting occurs when a plan participant has earned a right to a benefit that is not dependent on continued employment.

22 SEPs only allow employee contributions in the sense that employees make their IRA contribution (which they could make in the absence of any plan) to the same plan that the employer contributes to.
APPENDIX B

Bibliography


Colvin, Geoffrey, "How Sick Companies are Endangering the Pension System," Fortune, October 4, 1982, 72.


APPENDIX C

Survey Questionnaire

Justin Research Associates, Inc.
APPENDIX D

Sample Reporting Forms

Justin Research Associates, Inc.
**U.S. SMALL BUSINESS ADMINISTRATION**
**SMALL BUSINESS PENSION PLAN SURVEY**

Name of Firm ____________________________________________

Telephone (_____) _______________________________________

Name of Respondent ______________________________________

Title ____________________________________________________

Type of Business __________________________________________

Location ________________________________________________

<table>
<thead>
<tr>
<th>Date</th>
<th>Time</th>
<th>Explanation</th>
<th>C/B Time</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>
7. Describe the type or types of plan.

- 1. defined benefit plan (go on to Q 8)
- 2. defined contribution plan
- 3. money purchase pension plan
- 4. profit sharing plan
- 5. thrift plan
- 6. employee stock ownership plan (ESOP or PAYSOP)
- 7. 401(k) plan
- 8. simplified employee pension plan (SEP)
- 9. Keogh plan
- 10. other

(skip to Q 9)

8. Is it a single employer or multi-employer plan?

- 1. single employer
- 2. multi employer

9. Why did you select that particular type of plan?

- 1. ease of start-up
- 2. avoid paperwork/administrative expense
- 3. least risky type of plan
- 4. avoid involvement in investment decisions
- 5. flexibility of required contributions
- 6. higher deduction limitations
- 7. benefits to owners/management
- 8. other

10. In what year was your firm's pension plan set up?

- 1. since 1980
- 2. 1975-1980
- 4. before 1970
- 5. don't know

11. How many employees are plan participants?

- 

12. If some employees are not plan participants, why not?

- 1. not eligible - part-time employee
- 2. not eligible - temporary employee
- 3. not eligible - other reason
- 4. declined to participate
13. Does your firm's plan allow or require employee contributions?
   1   none
   2   required
   3   employer contribution depends upon employees'
   4   optional
   9   don't know

14. How many years of service are required before your employees become vested?

15. Do your employees become fully or partially vested at the end of this period?
   1   fully vested
   2   partially vested
   9   don't know

16. How many employees are vested?

17. Is the plan integrated with Social Security?
   1   yes
   2   no
   9   don't know

18. Does someone in your firm have the job of keeping pension plan records, preparing plan reports, and/or monitoring the plan in any way?
   1   yes
   2   no (skip to Q 20)

19. Is that person a full-time employee?
   1   yes
   2   no

20. Are the plan's assets managed by someone outside the firm?
   1   yes
   2   no (skip to Q 22)
21. What type of investment management organization do you use?

1. commercial bank
2. insurance company
3. investment advisory firm
8. other

22. Have you ever dropped a pension plan or switched plans in the past?

1. yes, dropped a plan (skip to Q 24)
2. yes, switched plans
3. no (skip to Q 36)

23. Why did you switch plans?

1. increase in revenues
2. reduction in revenues
3. change in regulations
4. increase in administrative costs
5. change in workforce
6. other regulatory changes
8. other

(skip to Q 35)

24. Why did you drop your previous plan?

1. reduction in revenues
2. complexity of regulations/paperwork
3. increase in administrative costs
4. change in workforce
5. reduction in benefits to management
6. management/employees covered by other plans
8. other

(skip to Q 35)

25. Why doesn't your firm have a pension plan?

1. lack of revenues
2. start-up costs
3. avoid paperwork/administrative expense
4. need for expert assistance
5. firm provides other types of benefits
6. complexity and change of regulations
7. lack of expressed interest on part of employees
8. management/employees covered by other pension plans
11. management/employees prefer current income
12. restrictions on management benefits
8. other
26. [If regulations are cited as a reason] What regulations affected your decision not to have a pension plan?

27. Has your firm ever lost a key employee because it didn't have a pension plan?

1 yes
2 no

28. Do you have any plans to set up a pension plan?

1 yes (skip to Q 30)
2 no

29. What would have to change for you to want to set up a pension plan?

(skip to Q 36)

30. Why do you want to set up a pension plan?

1 accumulate funds for retirement
2 union negotiation
3 protect employees
4 retain good employees
5 tax advantages
8 other __________________________

(skip to Q 36)

31. Why did you drop your previous plan?

1 reduction in revenues
2 complexity of regulations/paperwork
3 increase in administrative costs
4 change in workforce
5 reduction in benefits to management
6 other regulatory changes
7 management/employees covered by other plans
8 other __________________________

32. [If regulations are cited as a reason] What regulations affected your decision not to have a pension plan?
33. What would have to change for you to want to set up a pension plan?

34. Has your firm ever lost a key employee because it didn't have a pension plan?

1 yes
2 no

35. What type of plan did you have previously?

1 defined benefit plan
2 defined contribution plan

1 money purchase pension plan
2 profit sharing plan
3 thrift plan
4 employee stock ownership plan (ESOP or PAYSOP)
5 401(k) plan
6 simplified employee pension plan (SEP)
7 Keogh plan
8 other

36. If management/employees are covered by other pension plans, what type or types of plan do they have?

1 IRA
2 Keogh
3 plan from previous place of work
4 other

37. Would you characterize your total revenues during 1983 and 1984 as growing, stable, or declining?

1 growing
2 stable
3 declining
Complete every applicable part of this form. If an item in an applicable part does not apply, enter N/A. Multiemployer plans covered by PBGC insurance program, see Purpose on page 1 of the instructions.

**Reason for filing (check applicable box(es)); see General Instructions):**

A [ ] Notice of plan—(i) Merger, (ii) Consolidation, or (iii) Transfer of plan assets or liabilities to another plan.

B [ ] Application for ONLY an Internal Revenue Service (IRS) determination letter regarding a plan termination. (This is NOT a notice of intent to terminate for the Pension Benefit Guaranty Corporation.)

C [ ] Defined benefit plan filing "ONE STOP" (One-Stop filing is a voluntary choice in lieu of separate filings under B and D for):

(i) Notice of intent to terminate under the Pension Benefit Guaranty Corporation (PBGC) termination insurance program AND

(ii) Application for an IRS determination letter upon plan termination.

D [ ] Defined benefit plan filing ONLY a notice of intent to terminate under the PBGC termination insurance program. (This is NOT a request for an IRS determination letter.)

### Part I: All Filers Complete This Part

<table>
<thead>
<tr>
<th>1 (a) Name of plan sponsor (see instructions):</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address (number and street)</td>
</tr>
<tr>
<td>City or town, State, and ZIP code</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2 (a) Name of plan administrator (if same as 1(a), enter “same”)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Address (number and street)</td>
</tr>
<tr>
<td>City or town, State, and ZIP code</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2 (b) Administrator’s employer identification number</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>2 (c) Administrator’s telephone number</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>2 (d) Name, address, and telephone number of person to be contacted if more information is needed (see instructions):</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name</td>
</tr>
<tr>
<td>Telephone number</td>
</tr>
<tr>
<td>Address</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2 (e) Office of the District Director of the key district where sponsor is located (see instructions):</th>
</tr>
</thead>
</table>

3 If you checked reason for filing B, C, or D, has each party who is required to be notified been properly informed of this filing (see instructions)?

4 Type of plan entity (check only one box; see instructions):

(a) [ ] Single-employer plan

(b) [ ] Plan of controlled group of corporations or trades or businesses under common control

(c) [ ] Multiple-employer-collectively-bargained plan (other than a multiemployer plan)

5 (a) Plan name

<table>
<thead>
<tr>
<th>(b) Plan number</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>(c) Plan year ends</th>
</tr>
</thead>
</table>

6 (a) Is this a defined benefit plan covered under the Pension Benefit Guaranty Corporation termination insurance program (see Part IV instructions)?

(i) [ ] Yes

(ii) [ ] No

(iii) [ ] Not determined

(b) If you checked “Yes” or “Not determined,” have you ever used an employer identification number or plan number in any prior filing with PBGC other than the ones entered on lines 1(b) or 5(b) above?

(i) [ ] Yes

(ii) [ ] No

If “Yes,” enter the number(s) previously reported. ▶

7 Indicate type of plan (see General Instruction E):

(a) [ ] Defined benefit

(b) [ ] Money purchase

(c) [ ] Profit-sharing

(d) [ ] Other (specify) ▶

Under penalties of perjury, I declare that I have examined this application, including accompanying statements, and to the best of my knowledge and belief it is true, correct and complete.

Signature ▶

Title ▶

Date ▶

Signature ▶

Title ▶

Date ▶

For Paperwork Reduction Act Notice, see page 1 of the instructions.
**Part II**

Complete This Part if You Checked Reason for Filing A

8 Other plan(s) involved in transaction (see instructions):

<table>
<thead>
<tr>
<th>(a) Plan name</th>
<th>(b) Name of employer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
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</tbody>
</table>

(c) Employer identification number

<table>
<thead>
<tr>
<th>(d) Plan number</th>
<th>(e) Date of merger, consolidation or transfer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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</tbody>
</table>

(f) If the plan listed in 5(a) is a defined benefit plan attach an actuarial statement of valuation evidencing compliance with the requirements of Code section 401(a)(12) and the Income Tax Regulations under Code section 414(l).

**Part III**

Complete This Part if You Checked Reason for Filing B, C, or D

9 Effective date of plan

10 (a) Has the plan ever received an IRS determination letter? Yes | No

(b) If (a) is “Yes,” enter the file folder number and date of the most recent determination letter and complete (d) through (g).

(c) If (a) is “No” and your reason for filing is B or C, attach a copy of the executed original plan document or joinder/adoption agreement, all plan amendments, trust agreement, group annuity contracts and custodial agreements (do not complete (d) through (g)).

(d) If (a) is “Yes,” has the plan been amended since the last determination letter? Yes | No

(e) If (d) is “Yes,” and your reason for filing is B or C, attach a copy of the amendment(s) and complete (f) and (g).

(f) Do any of the amendments alter the plan’s vesting provisions? Yes | No

(g) Do any of the amendments decrease plan benefits? Yes | No

11 (a) Proposed date of plan termination

(b) Attach copies of records of all actions taken to terminate the plan (see instructions).

(c) Last contribution to the plan:

<table>
<thead>
<tr>
<th>(i) Date</th>
<th>(ii) Amount (see instructions) $</th>
<th>(iii) For plan year ended</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

12 Reason for termination (check only one box to indicate primary reason for termination):

(a) [ ] Change in ownership by merger

(b) [ ] Liquidation or dissolution of employer

(c) [ ] Change in ownership by sale or transfer

(d) [ ] Adverse business conditions (see instructions and attach explanation)

(e) [ ] Adoption of new plan (see instructions and attach explanation)

(f) [ ] Other (specify) □

13 Indicate funding arrangement:

(a) [ ] Trust (benefits provided in whole from trust funds)

(b) [ ] Trust or other arrangement providing benefits partially through insurance and/or annuity contracts

(c) [ ] Trust or other arrangement providing benefits exclusively through insurance and/or annuity contracts

(d) [ ] Custodial account described in Code section 401(f) and not included in (c) above

(e) [ ] Other (specify) □

14 (a) Name(s) of trustee(s) or custodian(s) (b) Date trust’s accounting period ends

Address (number and street)

City or town, State, and ZIP code

15 Participation (see instructions): Collectively bargained plans and plans filing only a notice of intent to terminate (reason for filing D) do not complete (a) and (c).

(a) (i) Is the employer a member of an affiliated service group? Yes | No | Not Certain

If there is uncertainty whether the employer is a member of an affiliated service group, check the “Not Certain” column.

(ii) If (i) is “Yes” or “Not certain,” did a prior ruling letter rule on what organizations were members of the employer’s affiliated service group or did the employer receive a determination letter on this plan that considered the effect of Code section 414(m)? Yes | No | Not Certain

(iii) If (ii) is “Yes,” have the facts on which that letter was based materially changed? Yes | No | Not Certain

(b) Is the employer a member of a controlled group of corporations or a group of trades or businesses under common control? Yes | No | Not Certain

16 (a) Is the plan a qualified plan under Code section 401(a)? Yes | No

(b) Is the plan a qualified pension plan under Code section 403(a)? Yes | No

(c) Is the plan an annuity contract or annuity plan? Yes | No
15 (Continued):

(c) Complete the following as of the proposed date of plan termination (current year) and as of the end of the 2 prior plan years:

(i) Did the plan satisfy the percentage tests of Code section 410(b)(1)(A)?

<table>
<thead>
<tr>
<th>Current year</th>
<th>19...</th>
<th>19...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
</tbody>
</table>

(ii) Total number of employees (if more than 100 enter "100+ ")

(d) Enter the number of participants employed for the current plan year and each of the 5 prior plan years on the schedule below:

<table>
<thead>
<tr>
<th>Current year</th>
<th>19...</th>
<th>19...</th>
<th>19...</th>
<th>19...</th>
<th>19...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number at beginning of plan year</td>
<td></td>
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<tr>
<td>Number added during the plan year</td>
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<tr>
<td>Total (add lines (i) and (ii))</td>
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<tr>
<td>Number dropped during the plan year</td>
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<tr>
<td>Number at end of plan year (subtract (iv) from (iii))</td>
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<tr>
<td>Total number of participants in this plan separated from service during the plan year without full vesting</td>
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</tbody>
</table>

16 Summary of Participant or Claimant by category:

<table>
<thead>
<tr>
<th>Personnel</th>
<th>Total number</th>
<th>Amount of monthly benefits as of the most recent payment date</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Retirees and beneficiaries (including disability retirees) receiving benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Active participants eligible for normal retirement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Active participants eligible for early (but not normal) retirement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d) Active participants vested before termination (other than normal or early retirement)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(e) All other active participants</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(f) Participants separated from service with deferred vested benefits</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(g) Total (add lines (a) through (f))</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

17 Miscellaneous:

(a) As a result of the termination, are accrued benefits or account balances nonforfeitable as required under Code section 411(d)(3)?

(b) Will the trust continue to operate after termination of the plan (see instructions)?

(c) Were any funds contributed in the form of, or invested in, obligations or property of the employer or any group of corporations or group of trades or businesses under common control?

(d) Will distribution include property other than cash?

(e) For a defined benefit or money purchase plan, do you estimate there will be an accumulated funding deficiency as of the end of the plan year during which the proposed termination date occurs, if no additional plan contributions are made?

If "Yes," enter the estimated accumulated funding deficiency $...........................................

(f) (i) If there are unallocated funds which can be reallocated to participants without exceeding the limitations of Code section 415, have these funds been reallocated?

(ii) If (i) is "Yes," did the plan originally contain a provision allowing this allocation?

(iii) If (ii) is "No," was the plan amended to provide for this allocation?

(g) Will any funds be, or have any funds been, returned to the employer? If uncertain check "Not Applicable." If "Yes," enter the estimated amount $ ........................................

(h) Is this plan or trust currently under examination or is any issue relating to this plan or trust currently pending before the Internal Revenue Service, the Department of Labor, the Pension Benefit Guaranty Corporation or any court?

If "Yes," attach a statement naming the agency(s) and/or court and briefly describing the issues.

(i) Did any plan participant during the current plan year or in the 5 prior plan years receive a lump-sum distribution (see instructions) or have an annuity contract purchased by the plan from an insurance company on his or her behalf?

If "Yes," state the largest amount so distributed or applied to purchase an annuity contract $ ........................................

(j) Is this a Keogh (H.R. 10) plan?

If "Yes," is an owner-employee covered under the plan?

If an owner-employee is covered under the plan, will distribution be made to him or her before he or she reaches age 59 1/2?

(b) Does the plan have ESOP/TRASOP features?
18 Defined contribution plans (other than money purchase plans) such as profit-sharing, stock bonus, or other such plans where forfeitures are credited to individual account balances, enter the information for the current plan year and the 5 prior plan years on the following schedule:

<table>
<thead>
<tr>
<th></th>
<th>19</th>
<th>19</th>
<th>19</th>
<th>19</th>
<th>19</th>
<th>19</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Employer contributions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) Forfeitures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Explain basis on which forfeitures were allocated</td>
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<td></td>
</tr>
</tbody>
</table>

19 Indicate how distributions will be made on termination (check applicable box(es)):
(a) ☐ Lump-sum distribution
(b) ☐ Annuity contract
(c) ☐ Periodic payments from trust
(d) ☐ Transfer of assets and liabilities to another plan
(e) ☐ Other (specify) ▶

20 Statement of net assets available to pay benefits as of the proposed date of plan termination. Read specific instruction 20, and if you checked Reason for Filing C or D, read specific instruction 25(c) before completing this item.

<table>
<thead>
<tr>
<th>Assets</th>
<th>Liabilities and Net Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Cash and cash equivalents</td>
<td></td>
</tr>
<tr>
<td>(b) Receivables—</td>
<td></td>
</tr>
<tr>
<td>(i) Employer contributions</td>
<td></td>
</tr>
<tr>
<td>(ii) Other</td>
<td></td>
</tr>
<tr>
<td>(c) Party-in-interest investments—</td>
<td></td>
</tr>
<tr>
<td>(i) Loans to employer</td>
<td></td>
</tr>
<tr>
<td>(ii) Employer securities</td>
<td></td>
</tr>
<tr>
<td>(iii) Other</td>
<td></td>
</tr>
<tr>
<td>(d) Other investments—</td>
<td></td>
</tr>
<tr>
<td>(i) Government securities</td>
<td></td>
</tr>
<tr>
<td>(ii) Pooled funds/mutual funds</td>
<td></td>
</tr>
<tr>
<td>(iii) Corporate (debt and equity instruments)</td>
<td></td>
</tr>
<tr>
<td>(iv) Real estate and mortgages</td>
<td></td>
</tr>
<tr>
<td>(v) Other</td>
<td></td>
</tr>
<tr>
<td>(e) Buildings and other depreciable property</td>
<td></td>
</tr>
<tr>
<td>(f) Unallocated insurance contracts</td>
<td></td>
</tr>
<tr>
<td>(g) Other assets</td>
<td></td>
</tr>
<tr>
<td>(h) Total assets (add lines (a) through (g))</td>
<td></td>
</tr>
<tr>
<td>(i) Accounts and notes payable—</td>
<td></td>
</tr>
<tr>
<td>(i) Past due benefits</td>
<td></td>
</tr>
<tr>
<td>(ii) Employer</td>
<td></td>
</tr>
<tr>
<td>(iii) Other</td>
<td></td>
</tr>
<tr>
<td>(j) Accrued expenses</td>
<td></td>
</tr>
<tr>
<td>(k) Mortgages payable</td>
<td></td>
</tr>
<tr>
<td>(l) Acquisition indebtedness</td>
<td></td>
</tr>
<tr>
<td>(m) Other liabilities</td>
<td></td>
</tr>
<tr>
<td>(n) Total liabilities (add lines (i) through (m))</td>
<td></td>
</tr>
<tr>
<td>(o) Net assets available to pay benefits (subtract line (n) from line (h))</td>
<td></td>
</tr>
</tbody>
</table>
Complete This Part If You Checked Reason for Filing C or D and checked "Yes" on line 6(a).

If you checked Reason for Filing C or D and "Not determined" on line 6(a), completion of this part is optional. However, if you do not complete this part, you must file the plan document, any amendments to the plan document, and the IRS determination letter(s) for the plan as described for lines 22(b), (c) and (g). If PBGC later determines that the termination insurance program covers the plan, you must file the remaining information required by this Part (see Part IV instructions).

21 (a) Name(s) of labor organization(s) representing plan participants

<table>
<thead>
<tr>
<th>Address (number and street)</th>
<th>Telephone number</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>City or town, State, and ZIP code</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

(b) Name of principal officer

<table>
<thead>
<tr>
<th>Title of principal officer</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
</tbody>
</table>

22 Indicate the applicability of items (a) through (i) by checking the appropriate column. Attach each item that is applicable (see instructions):

<table>
<thead>
<tr>
<th>(a) Power of attorney. File 2 copies if you are filing &quot;one-stop&quot; (see General Instruction H).</th>
</tr>
</thead>
<tbody>
<tr>
<td>(b) Copy of executed plan document.</td>
</tr>
<tr>
<td>(c) Copy of executed amendment(s) to the plan document.</td>
</tr>
<tr>
<td>(d) Copy of executed group annuity or group insurance contract(s).</td>
</tr>
<tr>
<td>(e) Copy of executed trust agreement(s).</td>
</tr>
<tr>
<td>(f) Copy of executed collective bargaining agreement(s).</td>
</tr>
<tr>
<td>(g) Copy of IRS determination letter(s).</td>
</tr>
<tr>
<td>(h) Copy of the most recent actuarial report.</td>
</tr>
<tr>
<td>(i) Copy of the most recent financial statement of plan assets.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Applicable</th>
<th>Not applicable</th>
</tr>
</thead>
</table>

23 Indicate the sufficiency of plan assets (see instructions):

<table>
<thead>
<tr>
<th>(a) Are any participants entitled to receive benefits assigned to categories 1 through 4 under ERISA section 4044?</th>
</tr>
</thead>
<tbody>
<tr>
<td>If &quot;Yes,&quot; complete (b); if &quot;No,&quot; enter N/A in (b), (c), (d), and (e).</td>
</tr>
<tr>
<td>(b) Do you estimate that plan assets (excluding any amount described in (d) below) are adequate to provide all the benefits assigned to categories 1 through 4 on the proposed date of plan termination?</td>
</tr>
<tr>
<td>If &quot;Yes,&quot; enter N/A in (c) and complete item (d); if &quot;No,&quot; complete (c) and (d).</td>
</tr>
<tr>
<td>(c) Indicate the estimated amount by which the value of benefits in categories 1 through 4 exceeds the value of plan assets on the proposed date of plan termination $</td>
</tr>
<tr>
<td>(d) Is the employer making a commitment (in the form prescribed in the PBGC regulation on determination of plan sufficiency) before the proposed date of plan termination to pay, on or before the date assets are distributed, the amount needed to provide all benefits in categories 1 through 4?</td>
</tr>
<tr>
<td>If &quot;Yes,&quot; attach a signed copy of the commitment; if &quot;No,&quot; complete (e).</td>
</tr>
<tr>
<td>(e) Has the plan sponsor paid or does the sponsor intend to pay employer liability as prescribed in the PBGC regulation on employer liability before PBGC's request for payment?</td>
</tr>
</tbody>
</table>

Note: Interest on employer liability will accrue from the date of plan termination.

24 Submit participant data schedules in the format shown in the instructions for the following groups of participants:

| (a) Retired participants and beneficiaries receiving benefits from the plan; |
| (b) Participants separated from service not yet receiving vested benefits from the plan; and |
| (c) All other participants with vested or non-vested accrued benefits. |

25 Indicate the information you are filing with this notice by checking one of the following boxes (see instructions):

| (a) I am filing a complete Form 5310 including required attachments. |
| (b) I am filing a complete Form 5310 except the information showing plan assets allocated to participants (see note below). |
| (c) I am filing a complete Form 5310 except plan asset information (line 20) and participant data schedules (line 24). I will file the information required by lines 20 and 24 within 90 days after the date of this filing. (See note below.) By not filing lines 20 and 24 with the form, I am agreeing to extend the 90-day period prescribed by ERISA section 4041(a) during which I will not make any distributions pursuant to the proposed termination of the plan. |
| (d) With this form I am filing a request for an extension of time to file the information required by line(s) (other than the information required by lines 20 and 24). (See note below.) For more information about extensions see the instructions. |

Note: If you checked reason for filing C and you are not sending all the information required in Parts I, III, IV, and either completed Form(s) 6088 or a second copy of the complete participant data schedules described in the line 24 instructions of Form 5310, the 270-day period prescribed by Code section 7476(b)(3) will not commence until you file the remaining required information.
<table>
<thead>
<tr>
<th>PAYER'S name, address, ZIP code, and Federal identifying number</th>
<th>RECIPIENT'S name, address, and ZIP code.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Amount includable as income (Add boxes 2 and 3)</td>
<td>2 Capital gain (For lump-sum distributions only)</td>
</tr>
<tr>
<td>3 Ordinary income</td>
<td>4 Federal income tax withheld</td>
</tr>
<tr>
<td>5 Employee contributions to profit sharing or retirement plans</td>
<td>6 Net unrealized appreciation in employer's securities</td>
</tr>
<tr>
<td>Recipient's identifying number</td>
<td>7 Category of distribution</td>
</tr>
<tr>
<td>8 IRA, SEP or DEC distributions</td>
<td>9 Other</td>
</tr>
<tr>
<td>This does __ does not ___ qualify as a lump-sum distribution.</td>
<td>%</td>
</tr>
<tr>
<td>Your percentage of total distribution. %</td>
<td>%</td>
</tr>
<tr>
<td>Death benefit exclusion does ___ or does not ___ apply</td>
<td>%</td>
</tr>
</tbody>
</table>

This information is being furnished to the Internal Revenue Service.

Copy B
For Recipient

Form 1099-R

Department of the Treasury - Internal Revenue Service